تحت رعاية كريمة من
صاحب السمو الشيخ محمد بن راشد آل مكتوم
نائب رئيس الدولة رئيس مجلس الوزراء حاكم دبي

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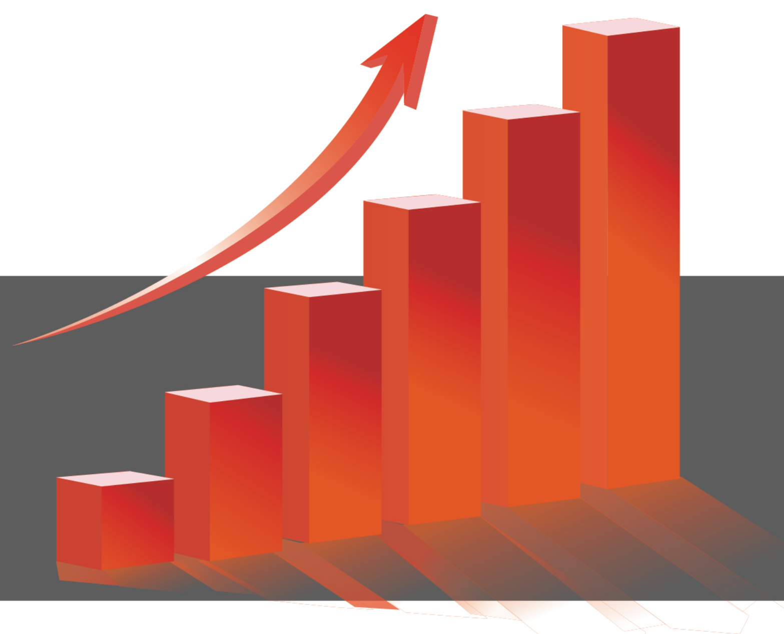
AIM INVESTMENT REPORT 2016
The Future of FDI

Third Edition



The New World of FDI,
Key Features and Best Practices

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Preface

One of the most striking developments of the last few decades has been the tremendous growth of foreign direct investment (FDI) in the global economy. As a result, FDI is now generally considered to be a key factor in fostering economic growth. It has become a vital component of economic strategies put forward by countries around the world being developed or developing.

However, FDI is only one form of investment. Companies increasingly choose from multiple market strategies ranging from exports, franchise, joint ventures, strategic alliances or partnerships, sub-contracting or outsourcing. These are the New Forms of Investment (NFIs) or non-equity forms of investment. The global investment map continues its transformation with new reservoirs of investment emerging especially from growing markets becoming major players to reckon with. This explains the theme of this year Annual Investment Meeting focused on the New World of FDI, Key Features and Best Practices.

The third edition of the AIM Investment Report aims at providing a better understanding of this emerging new world of foreign direct investment (FDI) defining the various new forms of investment and highlighting the new sources that are shaping the ever-changing international investment landscape. The report provides detailed analysis of foreign investment and a comprehensive picture of the latest investment trends especially Greenfield FDI at the global, regional and world city levels.

The uncertainty and volatility of both the macroeconomic and geopolitical conditions prevailing internationally point to a decline in global flows in FDI this year, especially Greenfield investments. More than ever, the world FDI market seems incredibly competitive. All countries and regions are engaged in the business of attracting investment to enable better opportunities for economic sustainability. The overall rate of FDI appears on its face to be slowing but fortunately, there are centers of excellence, which have been successful in attracting increased flows of investment and the United Arab Emirates is one of them both as a beneficiary, recipient of FDI and a dynamic outward investor.

However, the decline in FDI data is a reality today, a key question remains whether it is actually due to a changing nature of FDI with the increasing importance of M&As and other forms of market entry?. This is a major finding of this year AIM Investment Report, and regions need to pay attention to it. The change in how investment takes place is most relevant, and suggests that there are necessary changes in how regions and countries pursue this form of investment. It would certainly be useful to look at ways and means on how to capture and capitalise on the new methods of FDI.

Political stability and security seem to weigh high on corporate location decision making and more generalised policy changes affect investment in general. Regions and nations that are seen as being stable, welcoming, and predictable in their approach to working with corporations are increasingly seen as attractive options for inward investment. Indeed, the overall investment policy and regulatory framework play a crucial role in attracting investment including transparency and stability of the rule of law.

The new global players in the investment arena that are the new sources of investment from emerging markets are becoming an increasingly important force and nations should certainly pay greater attention in capturing these investments tailoring their investment promotion strategies to cater to their specific needs.

Needless to say that the opportunities and challenges in the future that are highlighted in the report will certainly be at the heart of our discussions at AIM 2016. I am confident, this flagship publication prepared by a team of experts from Investment Consulting Associates (ICA), the work of which is very much appreciated, will be useful to all of us. I sincerely hope this report will be a valuable source, for the Annual Investment Meeting Community and all governments who are honouring us with their presence, for inspiration, guidance, collaboration and ultimately development.

We hope you enjoy the report and welcome your continued feedback

Eng. Sultan Al Mansoori

Minister of Economy of the United Arab Emirates

AIM
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Annual Investment Meeting

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Disclaimer

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Prepared by

Dr. Douglas van den Berghe and his team

CEO - Investment Consulting Associates
Weesperstraat 61 - 105
P: +31 20 217 01 16
M: +31 6 462 86 660
E: douglas@ic-associates.com
W: www.ic-associates.com

List of Abbreviations

Abbreviation	Definition
ACC	Agricultural Commercialization Cluster
AIM	Annual Investment Meeting
ASEAN	Association of Southeast Asian Nations
BEPS	Base Erosion and Profit Shifting
BIT	Bilateral Investment Treaty
bln	Billion
BRICS	Brazil-Russia-India-China-South Africa
BTA	Bilateral Trade Agreement
Capex	Capital Expenditures
CIS	Commonwealth of Independent States
CIT	Corporate Income Tax
CPEC	China Pakistan Economic Corridor
CPR	Consumer Products & Retail
DRC	Democratic Republic of the Congo
DTC	Double Taxation Convention
EAC	East African Community
EDO	Economic Development Organization
EIU	Economist Intelligence Unit
EPC	Engineering, Procurement and Construction
EPZ	Export Processing Zone
EU	European Union
FDI	Foreign Direct Investment
FII	Foreign Indirect Investment
FPI	Foreign Portfolio Investment
FT	Financial Times
FTA	Free Trade Agreement
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
ICA	Investment Consulting Associates
ICT	Information and Communication Technology
IGO	International Governmental Organization
IIA	International Investment Agreement
IMF	International Monetary Fund
IPA	Investment Promotion Agency
ISDS	Investor-State Dispute Settlement
IT	Information Technology
JV	Joint Venture

KADCO	Kingdom Agricultural Development Company
KAM	Kingdom Africa Management
KHC	Kingdom Holding Company (Saudi Arabia)
KPI	Key Performance Indicator
KZAM	Kingdom Zephyr Africa Management
M&A	Merger and Acquisition
M&E	Monitoring and Evaluation
MDG	Millennium Development Goal
MENA	Middle East and North Africa
MFN	Most-Favored Nation
mln	Million
MNE	Multinational Enterprise
MT	Metric Ton
MW	Megawatt
NAFTA	North American Free Trade Agreement
NASSCOM	National Association of Software and Services Companies (India)
NDP	National Development Plan (South Africa)
NFI	New Form of Investment
ODI	Overseas Direct Investment
OECD	Organisation for Economic Co-operation and Development
OEM	Original Equipment Manufacturer
PIT	Personal Income Tax
PROSEC	Sectoral Promotion Program (Mexico)
R&D	Research and Development
RHC	Real Estate, Hospitality and Construction
RTA	Regional Trade Agreement
SCM	Subsidies and Countervailing Measures
SGRF	State General Reserve Fund (Oman)
SME	Small- and Medium-Sized Enterprise
TEAM-9	Techno-Economic Approach for Africa–India Movement
TMT	Technology, Media & Telecom
UAE	United Arab Emirates
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
US	United States
US$	United States Dollar
VAT	Value-Added Tax
WIR	World Investment Report
WTO	World Trade Organization

Executive Summary

Chapter 1: Concepts of FDI and Global FDI Trends

- In order to counterbalance the lack of firm-level perspective within FDI research, the focus of this report will primarily be on the narrow definition of FDI, Greenfield FDI, which reflects a firm-level perspective. The availability of micro-level FDI data derived from the Financial Times' database fDi Markets allows us to quantify this concept of FDI and apply it to corporate FDI.
- Data from fDi Markets indicated a 7.4% decrease in number of FDI projects in 2015, down to just over 11,900 projects. This equals US$712.68 bln worth of FDI. For 2014, fDi Markets registered a total of just under 12,900 FDI projects, which represented a value of US$656.4 bln.
- UNCTAD, however, recorded US$1,228.2 bln of global inward FDI flows and US$1,354.1 bln of global outward FDI flows for 2014. This demonstrates a gap between UNCTAD and fDi Markets data of US$572 mln and US$698 mln for inward and outward FDI, respectively. The main reason explaining this gap relates to the fact that M&A data is omitted from fDi Markets data. Global M&As increased from 2013 to 2015, which corresponds with a slight decline in the same period for Greenfield FDI.
- With an increase of 8% to US$712.68 bln, the level of global FDI nearly reached the level of 2013. Still, these values are considerably lower than the years prior to 2012. A little over 30% of all global FDI is destined for developed countries, which suggests a more or less stable trend.
- Europe[1] and, to a lesser extent, North America continue to remain popular destinations for global FDI. South-East Asia and South Asia have joined Europe at the expense of East Asia as most popular destinations for FDI in terms of capex. In fact, South-East Asia has surpassed Europe as the world region in which most jobs have been created as a result of attracted FDI.
- The shares of global FDI into North Africa, Sub-Saharan Africa and Central America and the Caribbean remained stable over 2015, whilst West Asia, South America and the Transition Economies experienced declines in their global shares.
- Despite the fact that Europe and North America continue to dominate as source regions for FDI, their global shares have decreased over 2015. On the contrary, East Asia has further strengthened its position as source region for FDI, whilst South Asia's role as a source for global FDI remains rather stable. South-East Asia seems to have further strengthened its position as both destination as well as source region for FDI.
- The shares of global FDI from North Africa has slightly increased whilst the shares for FDI from the Transition Economies and Central America and the Caribbean has remained stable. Sub-Saharan Africa, West Asia and South America have experienced slight decreases in their shares as global sources of FDI.

1 See list of countries per world region (UNCTAD) in Appendix A

- The number of FDI projects into Brazil, Russia, India, China and South Africa – the five BRICS countries – is just over 2,000 FDI projects. This is a record low since 2008 and a continuing trend which began in 2011. However, the value of these FDI projects into the BRICS has increased from US$130.2 bln in the previous year to US$153.3 bln in 2015.
- China remains the most popular investment location for FDI, though China and India's FDI performances appear to have converged further. In 2015, India's share of FDI capex and jobs is larger than China's.
- It appears the decline in shares of global inward FDI of a number of world regions (e.g. East Asia, South America and the Transition Economies) may be linked to the poor performance of some BRICS countries. The opposite is the case for South Asia, which reflects India's strong FDI performance.
- For the Next-11 countries[2], 2010 to 2012 were modest years in term of FDI attraction but are subsequently followed by years in which the number of FDI projects increased and stabilized. Apart from 2008, 2015 was a record high year for the Next-11 countries as they attracted a total US$156.1 bln together with 418,100 jobs. Mexico, Vietnam and Indonesia remain the most popular destinations for FDI among the Next-11 countries but have recently been joined by the Philippines. Turkey, on the contrary, has lost its position as one of the most popular FDI destination.
- A total of 484 FDI projects have been attracted by the six Gulf Cooperation Council (GCC) countries, a record low since 2008. The value of FDI capex directed to the GCC countries has decreased as well to US$22.3 bln. Over 2015, the UAE maintained its dominance with respect to attracting FDI within the GCC region and has come close to Saudi-Arabia as largest attractor of FDI capex.
- Falling commodity prices, especially for oil and minerals, depreciating currencies, and declining stock market indices have all contributed to a climate of gloom about emerging markets in general. Africa, seen as heavily dependent on commodities, has shouldered the brunt of this decline. But many investors, especially those from emerging market regions, have been better able to see beyond the headlines to capitalize on the many attractive investment opportunities that Africa continues to offer. Although infrastructure continues to attract substantial investment, many emerging market investors are focusing mainly on the agricultural, industrial, and service sectors. This is due to growth in consumer spending and strong, competitive, regional and global advantages that a number of African countries offer.

2 See list of countries per region in Appendix B

Chapter 3: Key Trends in Outward Investment from Emerging Economies

- A total of 1,000 FDI projects originated from Brazil, Russia, India, China and South Africa over 2015. This is the highest number of outward FDI projects originating from the BRICS countries apart from 2011. The number of FDI jobs created by BRICS companies over 2015 equals 207,000, which is slightly lower than 2014 but a higher number than any other year and above the peak year 2011. FDI from BRICS countries represented a capex of US$91.8 bln over 2015, still considerably lower than the US$106.5 bln in the record year 2011 but a clear indication of the positive trend of 2015.
- China remains the largest source of outward FDI and further enhanced its position over 2015. India follows China as main source of outward FDI projects. Combined, China and India represent nearly 80% of all FDI projects sourced from the BRICS countries. China's strong position as source for FDI has come at the expense of all four other BRICS countries. The only exception is that Russian companies accounted for a slightly larger share of outward FDI capex, mainly due to the capital-intensive investment in the coal, oil and natural gas industry.
- With 379 FDI projects, 2015 was an all-time record low in terms of FDI projects originating from the Next-11 countries. It is nonetheless remarkable that the capex value of these FDI projects as well as the number of jobs created has increased steadily from 2013 to US$41.2 bln and 140,000, respectively. This implies the average capex value and number of newly created jobs per FDI projects originating from Next-11 countries has risen considerably.
- The Next-11 countries can be grouped into three clusters as a source for FDI. The first cluster consists exclusively of South Korea, which is by far the largest source for FDI among the Next-11 countries. Despite Turkey's decline in its share of the number of FDI projects, Turkey together with Mexico are the second cluster. All remaining Next-11 countries are grouped in the third cluster and are minor sources for FDI.
- Over 2015, 244 FDI projects have been sourced from the GCC countries, an all-time record low. The number of jobs created by FDI originating from the GCC countries dropped to nearly 46,000, the lowest number of FDI jobs sourced from this region apart from 2013. On the contrary, FDI capex from this region increased substantially over 2015, equaling US$44.5 bln.
- The dominance of the UAE as a source for FDI is stable. However, Saudi Arabia's regional share of outward FDI capex and jobs has increased considerably, mainly due to a rise in outward FDI in the coil, oil, natural gas and energy industries.

Chapter 4: Competitiveness of Emerging Economies

- As of 2015, the majority of the world's top-10 competitive economies are situated in North America and northern and central Europe. This list also features a number of city states and countries in the Asia-Pacific region. No major shifts in the competitiveness ranking are expected for the next few years.
- The world's least competitive countries are less geographically concentrated and can be found throughout various areas of the world, including Sub-Saharan Africa, the Middle East and North Africa, former Soviet Union countries and a number of countries in Latin America. Among these countries are a number of Next-11 countries (e.g. Iran, Nigeria and Pakistan).
- For the period from 2016 to 2020, Libya is expected to drop to the bottommost rank as the least competitive economy, replacing Angola. The situation of Venezuela is similar.
- Among the countries that are expected to improve the most are eastern European countries (e.g. Serbia, Romania and Ukraine) as well as countries in the Eurozone that by 2020 are expected to have recovered from the economic recession and Euro crisis (e.g. Spain, Ireland and Italy). A combination of increased political stability, political effectiveness, improved economic stability, increased market opportunities and more liberal private sector policies are expected to contribute to their enhanced competitiveness.
- Three out of the five BRICS countries (e.g. China, Brazil and, particularly, Russia) feature among the countries expected to drop significantly on the global competitiveness ranking.
- The business environment of South Korea is the most competitive of the Next-11 countries and is expected to continue to be so up to 2020. Mexico comes in at second place and is expected to approach South Korea by 2020. Turkey is expected to have lost ground to other economies, resulting in a competitiveness similar to that of the Philippines and Vietnam. Egypt and Indonesia are comparable in terms of their competitiveness whilst Bangladesh, Iran, Nigeria and Pakistan can be clustered together as the least competitive Next-11 countries, for the present as well as for the nearby future.
- Bahrain features among the few countries that are expected to have experienced a decline in their competitiveness score by 2020. Bahrain is, however, not the only GCC country whose position on the global competeveness ranking is expected to decrease. Kuwait, Qatar and Saudi Arabia are expected to each lose their current positions on the global competitiveness ranking, partly caused by a weaker macroeconomic stability (e.g. price instability and less-balanced government budgets) and reduced market opportunities.
- Not surprising, most of the countries with the most competitive FDI policies are located in the same regions as the countries that rank high on the general competitiveness ranking. Chile is a noteworthy exception. Mexico, the only Next-11 country, is expected to join the top ten countries with the most favorable FDI policy.
- The changes for countries with the least favorable FDI policy are expected to be more substantial and dynamic. Iran and Angola are expected to move up the global ranking, resulting in a position equal to that of Cuba. This change is predicted to occur at the expense of Venezuela and Libya, which are considered to be the least favorable countries in terms of FDI policy by 2020, and followed by Russia, which also drops multiple ranks. By 2020, the countries with the least favorable FDI policies are Bangladesh and Nigeria, two Next-11 countries.
- Both Brazil and India are expected to slightly improve their FDI policies with respect to investor protection. This further reinforces Brazil's position as most competitive among the BRICS in terms of FDI policy, followed by China, India and South Africa, with Russia trailing. China's expected strong decline in FDI policy competitiveness is caused by a loss of general attractiveness to foreign investors and reduced government favoritism whilst Russia is expected to face expropriation risks.

- Across the GCC countries, Bahrain is ranked highest concerning FDI policy competitiveness. Qatar's FDI policy competitiveness, driven by improvements of its general attractiveness towards foreign investors and openness of its national culture, is expected to match Bahrain's.

Chapter 5: Putting the Right and New Policies and Practices in Place for Attracting FDI and NFI

- The general picture of policies towards FDI seems to be very positive as 30 – mostly emerging economies – are expected to offer a more liberal and efficient FDI policy framework by 2020. However, this optimism may be somewhat deceptive as an improved policy framework does not necessarily imply a more transparent, more efficient and less bureaucratic policy environment welcoming FDI.
- Many MNEs undertaking FDI emphasize that some policies have become more complex and less transparent whilst the stability and predictability of such policies is crucial for their FDI projects. Unexpected changes in policy and regulatory frameworks that may adversely affect investors' existing interests may encourage the investor to bring their matter (and host government) to an arbitral tribunal based on Investor-State Dispute Settlements (ISDS) mechanisms.
- In 2015, investors initiated 70 such ISDSs. To put this into perspective, a total of 409 ISDS claims have been registered on 108,056 FDI projects from 2008 to 2015. This implies one out of 264 MNEs undertaking FDI has filed an ISDS claim. The annual averages of ISDSs claimed in the time frame spanning from 2003 to 2010 (an average of 38 ISDSs) are considerably lower than the annual averages from 2011 onwards (an average of 59 ISDSs). These numbers confirm that foreign investors increasingly need and/or make use of ISDS provisions.
- Exploring the governments that most frequently received ISDS claims demonstrates the bias towards developing and emerging economies. ISDSs have been most often initiated against governments in Latin America, former Soviet Union countries as well as Egypt and India. The share of cases claimed against governments of developed and industrialized economies is on the rise. On the other hand, investors that filed ISDS claims originate nearly exclusively from developed and industrialized countries.
- One of the areas where changes in the legal and regulatory framework initiated by the host government may directly affect investors' interests, thus potentially leading to ISDS claims, concerns the provision of incentive packages and preferential treatment within free zones. Policy reforms and amendments affecting eligibility criteria, performance requirements and, especially, agreed-on (e.g. abolishment of reduced corporate income tax rate, lower grant amounts and/or restrictions on the duration of tax holidays) often are the cause of disputes between investors and host governments.
- Apart from the global recession, a number of other developments have altered the global context and effectiveness of incentives and free zones. In search for diversifying their business environment and creating unique competitive advantages, governments and free zones need to move away from traditional incentive packages.
- This does not imply governments should not provide any incentives to their investors. Incentives and free zones as policy instruments continue to be appreciated by investors. Regulatory incentives can mitigate some institutional risks whilst financial and fiscal incentives could compensate for operational risks and could support companies with growing, upgrading and diversifying.
- Developments in incentive policies and dynamic global context also affect the design of incentive regimes. Clearly, incentive frameworks must be designed in response to the evolving global market and the actual needs of investors. This involves a shift from competing on the quantity of incentives to the quality and applicability of incentives.
- Finally, from a government perspective, in order to enhance the transparency, accountability and credibility of their incentive regimes, it is critical to incorporate monitoring and evaluation mechanisms that track the overall performance of the incentive program as well as the compliance of individual incentive recipients.

- The overall rate of FDI appears on its face to be slowing as well. Whether this is truly the case, or whether it is due to a changing nature of FDI – with the increasing importance of M&As and other forms of market entry –both are relevant, and also somewhat of a distraction. It is a distraction in that direct investment is still taking place, but attention must be paid. This change in how investment takes place is an important finding and suggests that there changes should be made in how regions and countries pursue investment.
- Political and economic risks are seen as a more salient driver in locations decisions currently than they have been in the recent past. Regions and nations that are seen as being stable, welcoming, and predictable both in terms of their overall society and in their approach to working with corporations are increasingly seen as attractive options for inward investment.
- The challenges related to increased ISDSs – and resulting opportunities and insurance policy – for any jurisdiction that wishes to draw in new investment through entrepreneurial activity, innovation, merger investment or direct investment – must be in providing a nurturing, stable, and predictable environment. These can be augmented by having proper investments in infrastructure, talent development, economic networks, and by effective promotion of the jurisdiction.
- Public policy towards taxation, clarity and predictability of permitting, and other regulation provides companies and other investors with assurances that their investment is in safe hands. Governments can handle this best by providing transparency in governance and fair and equitable taxation policies.
- Fruitful avenues for developing a next generation of FDI policy include reflecting upon key FDI trends and positioning assets accordingly, creating means to capitalize on new methods of FDI, developing meaningful policy frameworks and continuously monitoring improvement.

Introduction

The 2016 Annual Investment Meeting (AIM) Report focuses on the recent trends in Foreign Direct Investment (FDI), looks ahead to the future and focuses on the theme of this year's AIM conference: "New Forms of Investment (NFIs)".

The objective of the report is threefold. Firstly, the report will provide detailed analysis of foreign investment trends in growing markets, and identify the opportunities and challenges that different emerging economies face as well as investment policies that are shaping the new world of FDI. It will be important to explain how trends and considerations in corporate location strategies are shaping foreign direct investment in fast growing economies. Secondly, the report will explain the trends identified by an analysis of the competitive position of a selection of emerging economies, assessing the value proposition of different fast-growing markets to foreign investors and how these different propositions and changes explain recent trends. Finally, the report will aim to provide a forward-looking perspective on what trends, challenges and opportunities will shape foreign direct investment in growing economies in the short-, medium- and longer-term.

Based on preliminary FDI data from UNCTAD, global FDI flows increased 36% in 2015 to an estimated US$1.7 trillion, their highest level since the global economic and financial crisis of 2008-2009. The increase was largely driven by growth in FDI flows to the European Union (EU) and the United States (US). Moreover, the increase in FDI flows was largely due to cross-border Merger and Acquisitions (M&As) – a rise of 61% in 2015 - with only a very limited contribution from greenfield investment projects. Recent data from fDi Markets from the Financial Times confirm these figures as global greenfield FDI projects decreased from nearly 12,900 in 2014 to slightly over 11,900 in 2015 – a decrease of almost 1,000 projects globally.

Obviously, there are many regional differences that will be highlighted by the report but the overall picture is one of decline in greenfield FDI and a rise in global M&A activity. The report, however, also highlights a number of promising developments. Over 2015, the United Arab Emirates (UAE) maintained its dominance with respect to attracting FDI within the Gulf Cooperation Council (GCC) region and has come close to Saudi Arabia as largest attractor of FDI capex. The UAE is also continuing its strategy to move beyond commodities and diversifying its economy further. China remains the most popular investment location for FDI (with the US and the EU) though China and India's FDI performance appear to have converged further. India's strong FDI performance over 2015 has come at the expense of the remaining four BRICS[3] countries (i.e. Brazil, Russia, China and South Africa). For the Next-11 countries, 2010 to 2012 were modest years in term of FDI attraction but are subsequently followed by years in which the number of FDI projects increased and remained stable (as opposed to other global regions). Africa, seen as heavily dependent on commodities, has shouldered the brunt of this decline. But many investors, especially those from emerging market regions, have been better able to see beyond the headlines to capitalize on the many attractive investment opportunities that Africa continues to offer. Although infrastructure continues to attract substantial investment, many emerging market investors, attracted by growth in consumer spending and strong competitive advantages enjoyed by a number of African countries, are focusing mainly on the agricultural, industrial, and service sectors. A competitive business environment often goes hand-in-hand with a competitive FDI policy as our analysis in Chapter 4 shows.

The overall decline in global FDI projects is due to the fragility of the global economy, declining growth levels in China, currency volatility, policy uncertainty and geopolitical risks. A recovery of global FDI flows thus remains distant despite slight positive growth levels in the US as well as lower oil prices and a more flexible monetary policy in the Eurozone. Additionally, many corporate executives require more stability and predictability in government's investment and (fiscal) incentive policies. Where costs were a major driver of investments in new markets, today talent, skills and the quality and stability of investment policies are crucial. For many companies decisions on where to invest and how to invest have become increasingly complicated. Investment policies (including tax and incentive policies) are less transparent, stable and predictable and many foreign investment projects have become political (i.e. exploited for the advantage of political campaigns and subject to the rigors of political election cycles). At the same time companies are looking for the next competitive edge but, in contrast to 10-15 years ago, prefer to take a longer term perspective towards their investment decisions.

3 See list of countries per region in Appendix B

Whereas many Investment Promotion Agencies (IPAs) and Economic Development Organizations (EDOs) see FDI as the 'holy grail' for economic development, companies see FDI projects as a once in a lifetime event and have the option to choose from multiple locations but also from multiple market entry strategies. These options range from exports, franchise, joint ventures, strategic partnerships and M&As (all captured under the term NFIs). FDI is just one of many options to enter new markets, but comes with many risks and is often a strategy that requires more time, resources and commitment from both companies and governments. In addition, FDI is just one of the pillars of economic growth for many countries in which domestic investment is often responsible for the bulk of economic growth. Although evidence of this trend towards New Forms of Investment is emerging (as witnessed in the increase in M&A and joint venture activity), it remains challenging to find structured global data to capture this phenomenon (apart from some publications of NASSCOM in India that publish data on outsourcing). The emergence of the NFIs is driven by a decrease in appetite by many multinational corporations for FDI and the preference of companies of emerging markets and frontier markets to internationalize through other means than FDI M&As.

For governments the task ahead is to define and develop investment policies (including tax and incentive structures) that are stable, predictable and less political, and focus on the long term. This requires the development of economic development goals and objectives for their country beyond short-term electoral gains. Policies must be realistic and focus on what a country can truly offer investors in the medium to long term are required. Although preliminary estimates indicate a slight growth in greenfield FDI, governments should not only continue to diversify their economies but also diversify their investment promotion strategies to include other market entry forms chooses by many firms rather than focus too much on FDI.

This report covers the following six chapters:

Chapter 1 will briefly define the concept of FDI and how various sources measure this concept. This understanding is critical for the remainder of this report as it may partly explain (differences in) FDI trends identified throughout. This section will assess different forms of FDI (e.g. Greenfield FDI and M&As) and will highlight any changes in types of FDI, particularly when relevant for emerging markets. The focus will shift to providing a high-level view of global FDI trends and the position of world regions in global flows of FDI and how dynamics have changed over 2015. A future outlook for the next several years will conclude this chapter.

Trends in inward investment to emerging economies will be the main topic of Chapter 2. This chapter will highlight differences between (emerging) regions and countries and will examine key trends in (changing) destinations of FDI in terms of number, capex and jobs. The chapter will also assess the key drivers of the types of investment in different key regions/countries and distinguish between more established and frontier locations for investment. In particular, it will look at how FDI from major emerging economies (e.g. China and India) to other emerging economies (e.g. in Africa) has developed and changed in recent years ("South-South FDI").

As opposed to the previous chapter, Chapter 3 will focus on FDI originating from emerging economies, looking at upcoming sources of FDI. The analysis will look at emerging economies as a group as well as individual key emerging economies as sources of investment (e.g. economies within BRICS, Next-11 and GCC countries) in order to ascertain the differences.

Chapter 4 will explain some of the trends identified in previous chapters in context to the current and changing international competitive position of different emerging economies. From a corporate perspective on the business environment, this chapter will look at the competitiveness of a selection of key economies from different regions of the world and examine their relative strengths.

Elaborating on the business environment analyses of the previous chapter, Chapter 5 will highlight the latest trends in policies that are being followed by countries globally and will analyze their implications on flows of FDI. This chapter will aim at pinpointing the policies that encourage FDI and provide tangible examples and best practices focusing on designing incentive policy frameworks to avoid investor-state dispute settlements (ISDSs).

Finally, Chapter 6 will synthesize the findings from the previous chapters and look at the implications for emerging economies in the immediate- and longer-term future. It will identify key challenges and opportunities that emerging economies are facing as destinations for and sources of investment and provide a high-level, forward-looking perspective on FDI.

Chapter 1: Concepts of FDI and Global Trends: A Further Consolidation of Emerging Economies in the Global FDI Arena

Methods of Conceptualizing and Measuring FDI

FDI continues to have considerable influence in the world economy. Before assessing global and regional FDI trends, it is, however, important to examine the exact scope of FDI and how this concept is operationalized and measured. This is to determine if there is useful information that can be uncovered. Different sources have used different reporting methods to measure FDI. Some sources, such as UNCTAD's World Investment Report, include M&As into their definition of FDI whilst other sources focus purely on "Greenfield" FDI.

Indeed, this Chapter shows differing trends between various FDI data sources and FDI definitions. Data from fDi Markets indicated a 7.4% decrease in number of FDI projects in 2015, down to just over 11,900 projects. This equals US$712.68 bln worth of FDI. UNCTAD, however, recorded US$1,228.2 bln of global inward FDI flows and US$1,354.1 bln of global outward FDI flows for 2014. The main reason explaining this difference relates to the fact that M&A data is omitted from fDi Markets data. Global M&As increased from 2013 to 2015, which corresponds with a slight decline in the same period for Greenfield FDI. However, with an increase of 8% to US$712.68 bln, the level of global FDI nearly reached the level of 2013. Still, these values are considerably lower than the years prior to 2012. In terms of major destinations for global FDI, Europe[4] and, to a lesser extent, North America continue to lead. South-East Asia and South Asia have joined Europe at the expense of East Asia as most popular destinations for FDI capex. In fact, South-East Asia has surpassed Europe as the world region in which most jobs have been created as a result of attracted FDI. On the contrary, Europe's and North America's global shares as source region for FDI have decreased over 2015. East Asia has further strengthened its position as source region for FDI whilst South Asia's role as a source for global FDI remains rather modest. South-East Asia seems to have further strengthened its position as both destination as well as source region for FDI.

Defining FDI

One way or another, FDI is considered a mode of entry companies may use to enter a foreign market. Apart from FDI, other examples of such modes of entry or "strategies of internationalization" include exporting, licensing and franchising, joint ventures, strategic alliances and M&As. The exact mode of entry selected by a company depends on multiple factors, of which the company's investment motive(s), objective(s) and strategy are key. This, in turn, helps determine the interaction and exposure to home and foreign markets.

In its most narrow definition, FDI is referred to as the physical investment of a subsidiary that is entirely owned by a foreign company[5] (i.e. Greenfield FDI). Due to its physical construction, FDI is exposed to the business environment in the foreign market or host country whilst it is only minimally impacted by the business environment in the home market or country. FDI is positioned at one side of the spectrum of modes of entry in terms of exposure. Exporting, as mode of entry, is positioned at the opposite side of the spectrum as it is much more contingent upon business conditions in the home market or country but is much less exposed to the foreign market's business environment.

This physical component furthermore implies that M&As are not part of this narrow definition of FDI. M&A does not include establishing a physical foreign operation but rather revolves around directly obtaining ownership and control of another existing corporate entity. This avenue is a less risky mode of entry since the business is already established and employees, facilities and other assets are already in place. In fact, this separation relates to where the division between FDI and foreign portfolio ("indirect") investment (FII) is placed. The narrow definition of FDI is associated with both ownership and control and therefore implies active management. Foreign portfolio investment on the other hand is solely occupied with acquiring the ownership of an existing firm, mostly through bonds, shares and equity stocks.[6] Consequently, to safeguard a distinction between FDI and foreign portfolio investment, M&As are considered an independent mode of entry and are therefore not part of the definition of FDI used throughout this report.

4 See list of countries per world region (UNCTAD) in Appendix A

5 Verdin, P. & Van Heck, N. (2001)

6 Goldstein, I. & Razin, A. (2004)

The discussion relating to how to define FDI as a concept and how to quantify it must also address the scale of data. The degree of data-aggregation (e.g. macro-/country-level or micro-/firm-level) creates a number of barriers for identifying and comparing FDI trends across different sources. Textbox 1.1 elaborates on this issue.

Textbox 1.1: Level of analysis – challenge in FDI research, macro-level data vs. firm-level data

Much of the research that has been conducted on FDI takes place at a high level (country) of aggregation, applied macro FDI data and employment data, which adopts a macro focus. The aggregate FDI and employment data are by their very nature wider reaching in scope than firm-level data. Existing research, therefore, lacks a true firm perspective to the relationship between international production, relocation and employment.

Why this lack of attention for the firm? Firstly, because of the limited availability of firm level data on FDI and employment. They relate to the particular manner in which statistical bureaus reveal and collect their data, and to lacking international coordination and collaboration on the issue. Perhaps an even bigger problem is that there is no generally accepted macro-economic theory of FDI and the multinational enterprise (MNE). It makes it difficult for economics scholars to legitimately focus on MNEs. The lack of a theory can largely be explained through the recent importance of FDI and the perceived role of MNEs in the economy. It can also be explained by the indifference of macro economists to direct investment in general, and the multinational firm in particular.

For most economists, FDI is simply a macro-economic transfer of capital from one country to another in which a MNE sets up an affiliate in another country, with the exception that FDI entails a degree of control between the parent and the subsidiary. The lack of a firm-level perspective in FDI research is largely due to the fact that the link between international production and employment is complex and hinges in particular on the motives and changing internationalization strategies of MNEs. There are two types of problems associated with aggregated FDI data. Firstly, problems associated with the recent nature of the collection process, relating to the scientific rigor and reliability, and secondly to validity.

Reliability

Despite the enormous importance of FDI, the data compiled by most governments are neither highly accurate nor, by most criteria, sufficiently wide in scope of coverage to fully cover all aspects of FDI. Although FDI has been conducted for more than a hundred years the collection of data on FDI – in sharp contrast to trade flow data gathering - started relatively recently. It was not until the mid-1980s that the OECD was able to attain full country coverage of inward FDI among its member states. Many governments collect data on FDI capital flows, through their central banks. In the balance of payments accounts of most countries, trade related issues, as exports and imports are reported under the current account items. Investment related issues as FDI are often reported under capital account items. In addition there are a number of International Governmental Organizations (IGOs) and institutes, that started to collect and analyze FDI data from the national statistical offices. There is, however, no international coordination. Consequently, not all countries apply similar definitions of Foreign Direct investment. The FDI data reported by national central banks and official national statistical offices are vulnerable to major distortions of cross-country comparisons over time. This weak international research tradition has resulted in a large number of measurement errors and differences between countries and among IGOs measuring annual FDI flows and stocks, diminishing the reliability of macro-level FDI data.

Validity

FDI is regarded as a proxy for international production and international investment undertaken by MNEs. It reflects the foreign activities of a country's MNEs. However, there exists a discrepancy between FDI data and the actual value and international distribution of the productive activities of MNEs. This hinders the application of data as indicator for firm-level international productive activity. Despite a better collection effort by many national government agencies, central banks and IGOs and, better regulations on cross-country comparisons, the fundamental issue of validity of FDI remains: Do macro FDI statistics measure what they purport to measure (i.e. international production by MNEs)? At an aggregate level of analysis for many researchers, FDI data seem to represent the single source and "best in town" for analyzing the extent of international investment and production by MNEs in general, and its effect on employment and economic development in particular. Nonetheless, many scholars increasingly recognize the shortcomings and limitations of macro-level FDI data for drawing firm-level inferences related to international production.

Source: Van den Berghe, D. (2003)

In developing macro-level theories and explanations, based on micro-level assumptions, it is explicitly or implicitly assumed that there is consistency between macro- and micro-elements. But the analytical connection between the micro- and macro-economic level has always been hampered by numerous analytical problems.[7] Different conclusions may emerge depending on the level of data-aggregation.

In addition, from the perspective of government organizations, IPAs and EDOs, the focus is on firm-level FDI data rather than macro-level, FDI flow data. After all, the mandate of EDOs and IPAs mainly concerns promoting Greenfield FDI that measure the number of FDI projects, capital expenditures and newly created jobs. This reveals more evidence on the FDI performance and contribution of EDOs and IPAs than aggregated national statistics on inflows and outflows of FDI.[8] The definition, methodology and macro-level data used by international organizations (e.g. IMF, OECD and UNCTAD) are not designed to reflect and account the investment promotion efforts of EDOs and IPAs.

In order to counterbalance the lack of attention for the firm-level perspective within FDI research, the focus of this report will primarily be on the narrow definition of FDI, which concerns Greenfield FDI and thus reflects a firm-level perspective. The availability of micro-level FDI data derived from the Financial Times' (FT) fDi Markets database allows us to operationalize and quantify this concept of FDI.

This database administers cross-border investment consisting of new physical projects as well as expansion of existing projects (i.e. "Brownfield" FDI) that generates capital expenditures and employment.[9] Data is registered at the moment the company announces its intended FDI project. The fDi Markets database explicitly excludes M&As and other forms of equity investment whilst data on joint ventures is only included when it results in a physical investment project. Data on FDI projects is collected from and cross-referenced against various sources (e.g. direct company sources, newswires, international information sources, media sources, industry organizations, investment agencies and market research and publication companies).

Finally, in terms of economic development, the use of firm-level data from fDi Markets directly demonstrates the contribution of FDI to local economic growth measured by capital expenditures and newly created jobs. This firm-level and bottom-up approach provides a different interpretation of FDI data as opposed to macro-level flows of FDI (including M&As) derived from official national statistical offices that measure on a more abstract level, revealing little actual FDI contribution to local economic development.

FDI Versus Non-Equity Modes – NFIs

FDI and M&As have often been contrasted versus non-equity modes of investment or NFI strategies that are increasingly adopted by established MNEs from developed markets. The table below provides a good overview of the differences of the various strategies.

7 Ietto-Gillies, G. (2002)

8 Loewendahl, H. (2015)

9 fDi Markets, fDi Intelligence from Financial Times Ltd. (2016)

Table 1: Alternative operating models for foreign market expansion

Ownership	Location	
	Home Country	Foreign Country
Equity arrangements	a. Exporting	a. Wholly owned operations – FDI
		b. Partially owned with remainder widely held – FDI
		c. Joint ventures
		d. Equity alliances
Non-equity arrangements		a. Licensing
		b. Franchising
		c. Management contracts
		d. Turnkey operations

Source: Daniels, J. & Radebaugh, L. (2003)

The various NFI strategies are explained below.

Licensing:
Under a licensing agreement, a company (the licensor) grants rights to intangible property to another company (the licensee) to use in a specified geographic area for a specified period. In exchange, the licensee ordinarily pays a royalty to the licensor.

Franchising:
Franchising is a specialized form of licensing in which the franchisor not only sells an independent franchisee the use of the intangible property (usually a trademark) essential to the franchisee's business but also operationally assists the business on a continuing basis, such as through sales promotion and training. In many cases, the franchisor provides supplies.

Management Contracts:
One of the most important assets a company may have at its disposal is management talent, which it can transfer internationally, primarily to its own foreign investments. Management contracts are means by which a company may transfer such talent – by using part of its management personnel to assists a foreign company for a specified period for a fee.

Turnkey Operations or contract manufacturing:
Turnkey operations are a type of collaborative arrangement in which one company contracts another to build complete, ready-to-operate facilities. Companies building turnkey operations are frequently industrial-equipment manufactures and construction companies.

Joint Ventures:
A type of ownership sharing popular among international companies is the joint venture, in which more than one organization owns a company. Although companies usually form a joint venture to achieve particular objectives, it may continue to operate independently as the objective is redefined.

Equity Alliances:
An equity alliance is a collaborative arrangement in which at least one of the collaborating companies takes an ownership position (almost always minority) on the other(s). The purpose of the equity ownership is to solidify a collaborating contract, such as supplier-buyer contract, so that it is more difficult to break – particularly if the ownership is large enough to secure a board membership for the investing company.

Comparing Different Definitions of FDI

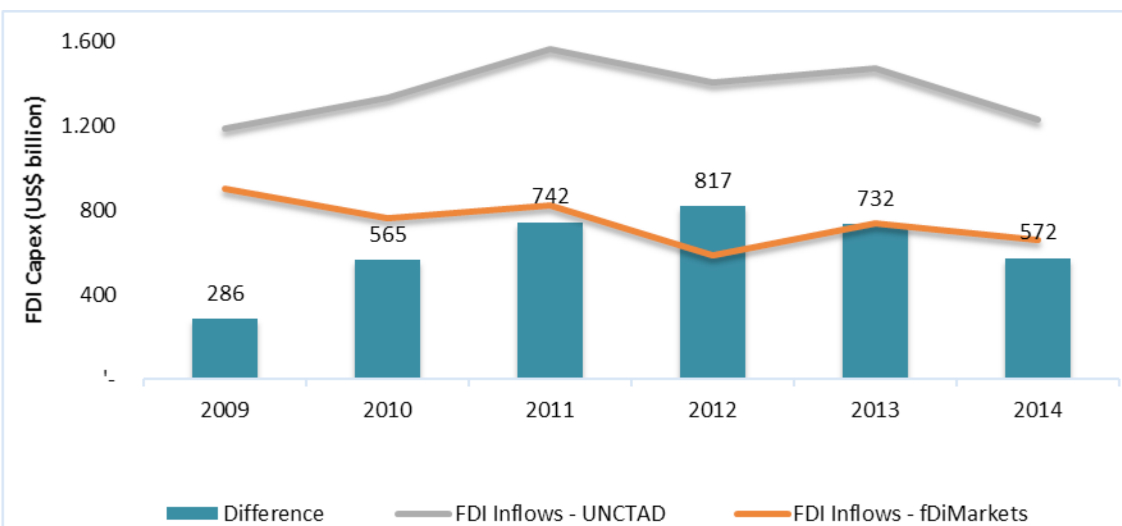
As opposed to the FDI definition used by fDi Markets, that exclusively focuses on physically constructed FDI projects, UNCTAD's World Investment Report features FDI data with a much wider scope. UNCTAD also recognizes FDI involves a long-term relationship and a degree of control by the parent company over a foreign affiliate and includes the initial as well as any subsequent transactions between them. Flows of FDI are measured by the flows of capital between the parent company and the foreign affiliate and can take the form of equity capital, reinvested earnings and intra-company loans. Contrary to fDi Markets, UNCTAD has incorporated M&As within its definition of FDI.

The way data is collected also differs between fDi Markets and UNCTAD. The latter collects (un)published FDI data reported by central banks, statistical offices or national authorities.[10] These data are complemented by additional data sources such as international organizations (e.g. IMF, World Bank and OECD), regional organizations (e.g. EU and ASEAN) and UNCTAD's own calculations. Data from IMF is used to produce FDI estimates for economies for which no FDI data through central banks, statistical offices or national authorities was available.

This difference in definitions is reflected by the data. Constructing and comparing FDI trends using data of the two sources may thus be a valuable exercise. As Figure 1 shows, 2014, the most recent year for which UNCTAD data is available, shows lower FDI inflows as compared to 2013: US$1,228.2 bln recorded by UNCTAD against US$656.4 bln for fDi Markets. This implies UNCTAD recorded nearly twice as much global FDI inflows as fDi Markets did in 2014.

The trend between the two data sources appears to correspond largely, except for 2010. In this year, UNCTAD recorded a growth in FDI inflows of US$141.7 bln up to US$1,328.1 bln, whilst fDi Markets administered a drop in global FDI inflows of US$137.2 bln down to US$763.6 bln. Despite this broadly corresponding trend in global FDI inflows, the gap between the two data sources in terms of global FDI inflows has widened considerably from US$286 bln in 2009 to US$817 bln in 2012. This is due to the fact that the rates at which the FDI inflows have increased or decreased differ between the two data sources. The change in FDI rates mostly equals approximately 10% (e.g. over 2011, UNCTAD recorded an increase of 17.7% against 7.6% for fDi Markets). This is gap actually represents the M&A component that is included in the UNCTAD data but is omitted from the fDi Markets database.

Figure 1: Global FDI inflows trends according to UNCTAD and fDi Markets data, 2009-2014



Source: fDi Markets, fDi Intelligence from Financial Times Ltd. and UNCTAD, World Investment Report 2015 Date range: 2008-2015

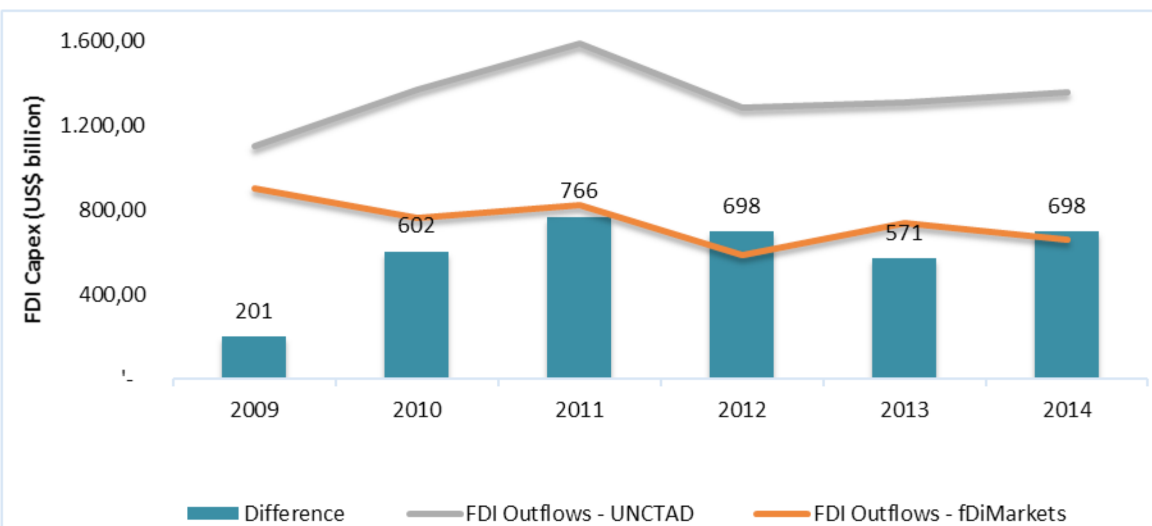
10 UNCTAD (2015a)

FDI outflows trend data derived from fDi Markets, shown in Figure 2, exactly reflects identified global FDI inflows trends. This correlates to the fact that fDi Markets measures activity on a micro-level, where an investment from a company located in country X into country Y implies an automatic registration for FDI outflows for country X with a value exactly as the FDI inflow into country X.

UNCTAD, on the other hand, also registers negative FDI inflows and outflows, which indicate that at least one of the three components of UNCTAD's FDI definition (i.e. equity capital, reinvested earning or intra-company loans) may be negative. Such a measure can capture a scenario of dis- or reverse investment.[11] In addition, as UNCTAD data is collected though national statistical offices, central banks, international and regional organizations, which are self-reported data, and its own estimates, discrepancies between UNCTAD's global FDI inflows and outflows may appear.

Thus, the global FDI outflows in 2014 according to fDi Markets are exactly similar to the global FDI inflows recorded for 2014 (i.e. US$656.4 bln). UNCTAD, on the other hand, registered US$1,354.1 bln worth of global FDI outflows. The global FDI outflows trends recorded by the two data sources differ more than the global FDI inflows. Not only did UNCTAD record an increase in global FDI outflows in 2010 against a drop measured by fDi Markets, a similar difference has been registered for 2014. As a result, the gap between global FDI outflows measured by UNCTAD and fDi Markets has increased to nearly US$700 bln in 2014. Again, this gap is explained by the M&A component that is included in UNCTAD's statistics but excluded from fDi Markets data.

Figure 2: Global FDI outflows trends according to UNCTAD and fDi Markets data, 2009-2014



Source: fDi Markets, fDi Intelligence from Financial Times Ltd. and UNCTAD, World Investment Report 2015 Date range: 2008-2015

11 UNCTAD (2015b)

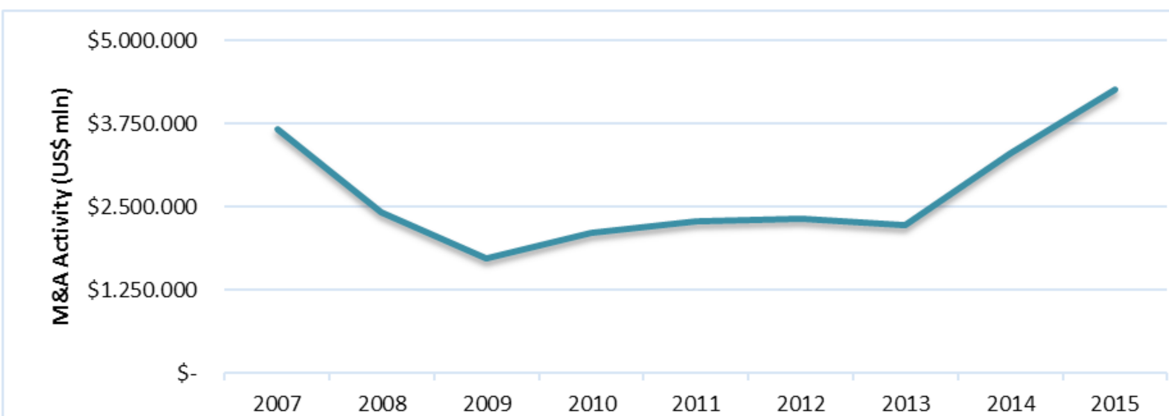
The Role of M&As

As mentioned, the main reason explaining the difference in FDI trends between fDi Markets and UNCTAD concerns the fact that M&A data is omitted from fDi Markets data. Therefore, this section will highlight trends in global M&A activity. As data has indicated, Greenfield FDI has declined over the previous period whilst activity in the form of M&As has increased. This may indicate greater familiarity and comfort with businesses in the target geographies, or it may be viewed as a more conservative strategy for market entry without traditional start up efforts.

Mergermarket.com tracks data on the value and the number of M&A deals across the globe. The data indicates the value of M&A transactions based upon the predominant geography of the target company. The data may indicate some degree of domestic M&A activity, but it is also a useful analog for determining invert investment through acquisition. Data is tracked as both the number of the deals and the total value of M&As. The following series of graphs describe activity as it occurred from 2007 to 2015.[12]

As is shown in Figure 3, activity in global M&As has increased significantly from 2013 to 2015, corresponding with a slight decline in the same period for Greenfield FDI. This trend is echoed strongly in the European and American regional trends, and only Africa shows leveling off in activity trends. The region with the most dramatic display of an upward M&A trend is Asia-Pacific (excluding Japan), suggesting that global markets are increasingly choosing this form of investment in this part of the world.

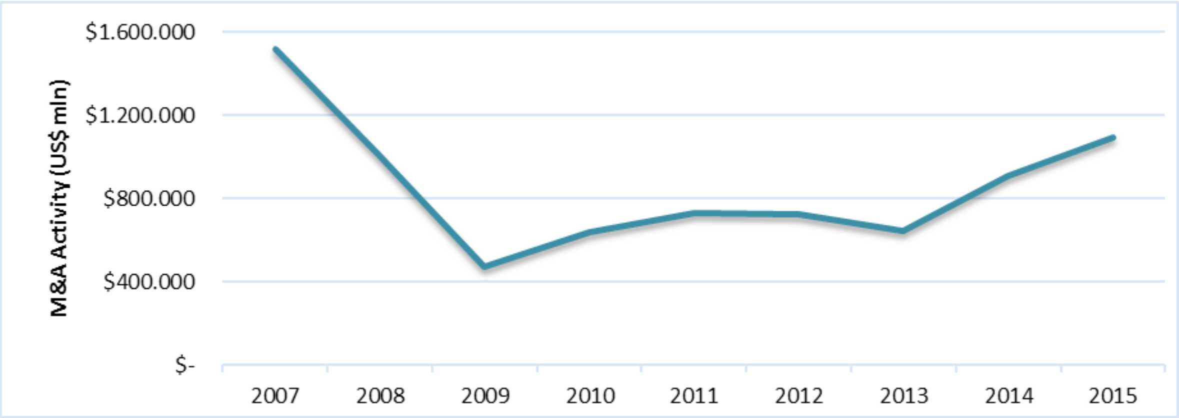
Figure 3: Global M&A activity, 2007-2015



Source: Mergermarket.com Date range: 2007-2015

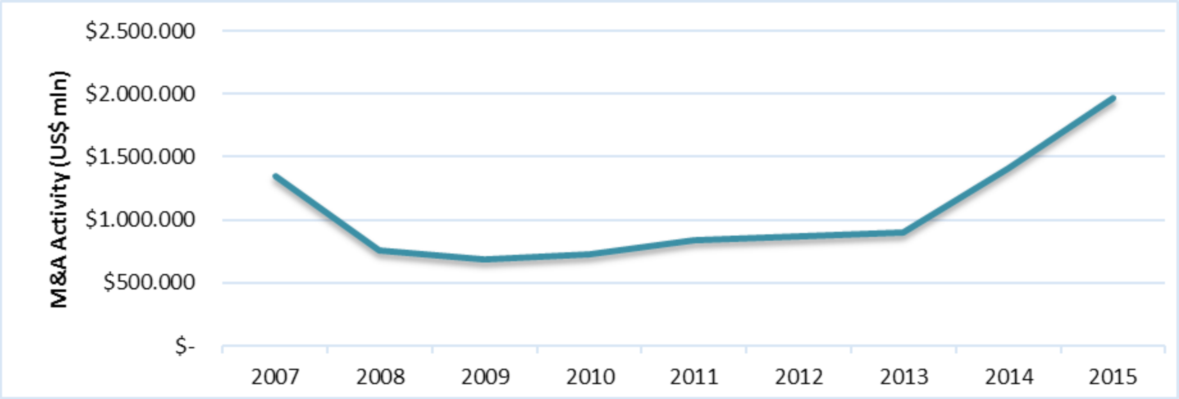
12 All data from Mergermarket.com, accessed 22-Feb-2016. Includes all deals valued over US$5 mln. Where deal value not disclosed, deal has been entered based on turnover of target exceeding US$10 mln.

Figure 4: Europe M&A activity, 2007-2015



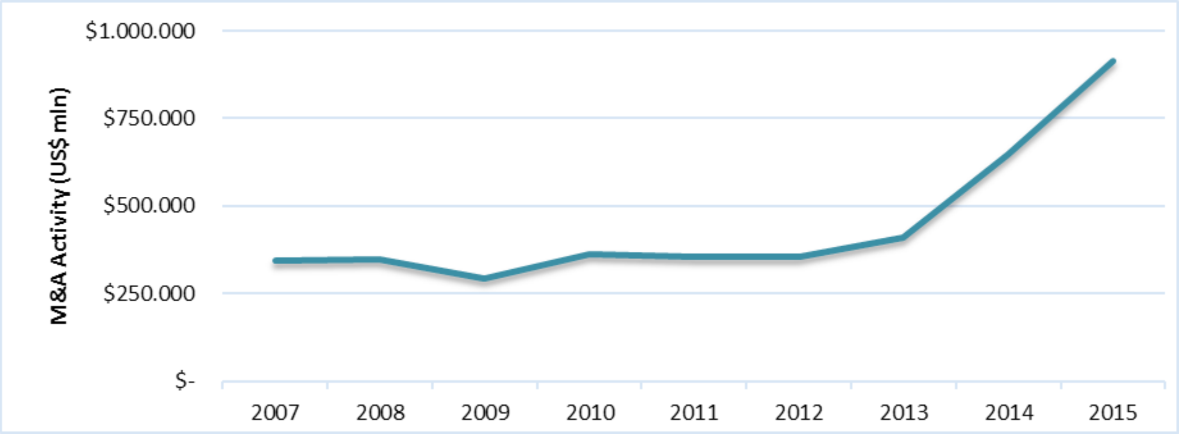
Source: Mergermarket.com Date range: 2007-2015

Figure 5: US M&A activity, 2007-2015



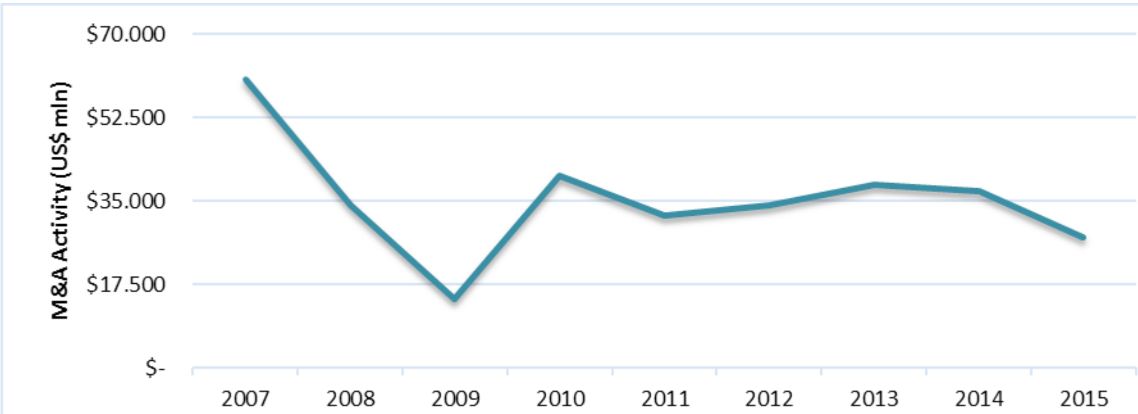
Source: Mergermarket.com Date range: 2007-2015

Figure 6: Asia-Pacific (excluding Japan) M&A activity, 2007-2015



Source: Mergermarket.com Date range: 2007-2015

Figure 7: Africa M&A activity, 2007-2015



Source: Mergermarket.com Date range: 2007-2015

M&As can often be used as a highly strategic means of expansion and market entry. M&A as a mode of entry allows a company or investor to acquire a complete infrastructure and corporate culture that is already established and well-functioning within the target market or region. As such, it can be viewed as a means for a more aggressive FDI strategy.

Textbox 1.2: Scope of FDI in this Report

For the remainder of this Chapter, where we turn our attention away from methodological issues towards identifying actual FDI trends, and throughout this report, we will exclusively refer to FDI as consisting of Greenfield (i.e. new) and Brownfield (i.e. expansion) FDI, thereby excluding M&As and other forms of equity investment as used by UNCTAD. This also implies for the remainder of this first Chapter, as well as Chapter 2 and Chapter 3, we rely on data from fDi Markets – unless noted otherwise. The main data sources used in Chapter 4 to measure competitiveness and in Chapter 5 to identify incentive trends are introduced separately.

Global FDI Trends

FDI is driven by four basic needs: The need to increase access to natural resources, the need to access new markets, the need to access and utilize assets (such as talent and infrastructure) and the need to gain competitive advantage through increased efficiency and reduced cost.

Increase in geopolitical tensions, political instability in emerging markets, and economic crisis in emerging markets were cited as the three largest wild cards for FDI in the next year.[13] Given current uncertainties about terrorism, the activities of ISIS/Daesh, and perceived weakness in the Chinese market, it is perhaps no surprise to expect some temporary cooling in – and reallocation of – global FDI activity.

Indeed, companies surveyed about their goals for their FDI strategies report a shift in thinking that appears to favor more stable destinations for FDI investment. fDi Markets reported in 2015 that while access to a new market's domestic potential and the proximity to markets and customers are still the largest drivers for FDI decisions, the importance attached to each has dropped somewhat as compared to the 2010-214 period.[14]

13 A.T. Kearney (2015)

14 fDi Markets, fDi Intelligence from Financial Times Ltd. Date range: 2010-2015

Table 2: Overview of key motives perceived as critical by FDI investors

	2010-2014	2015	Change
Domestic market growth potential	44.7%	41.12%	-3.6%
Proximity to market or customers	33.4%	30.3%	-3.2%
Regulations or business climate	18.5%	21.0%	+2.5%
Skilled workforce availability	16.1%	19.2%	+3.1%
Infrastructure and logistics	8.2%	8.6%	+0.4%
Industry cluster and critical mass	7.8%	6.9%	-0.9%
Technology or innovation	3.0%	6.5%	+3.5%
Attractiveness and quality of life	4.0%	4.3%	+0.3%
IPA, EDO or other government support	3.9%	3.9%	0.0%
Universities or researchers	1.0%	3.5%	+2.5%

Source: fDi Markets, fDi Intelligence from Financial Times Ltd. Date range: 2010-2015

Factors gaining in importance included regulations and business climate, technology and innovation, skilled workforce availability, and universities or researchers. All suggest a subtle shift in the kinds of FDI currently underway, as well as the likely preferred destinations for this FDI activity.

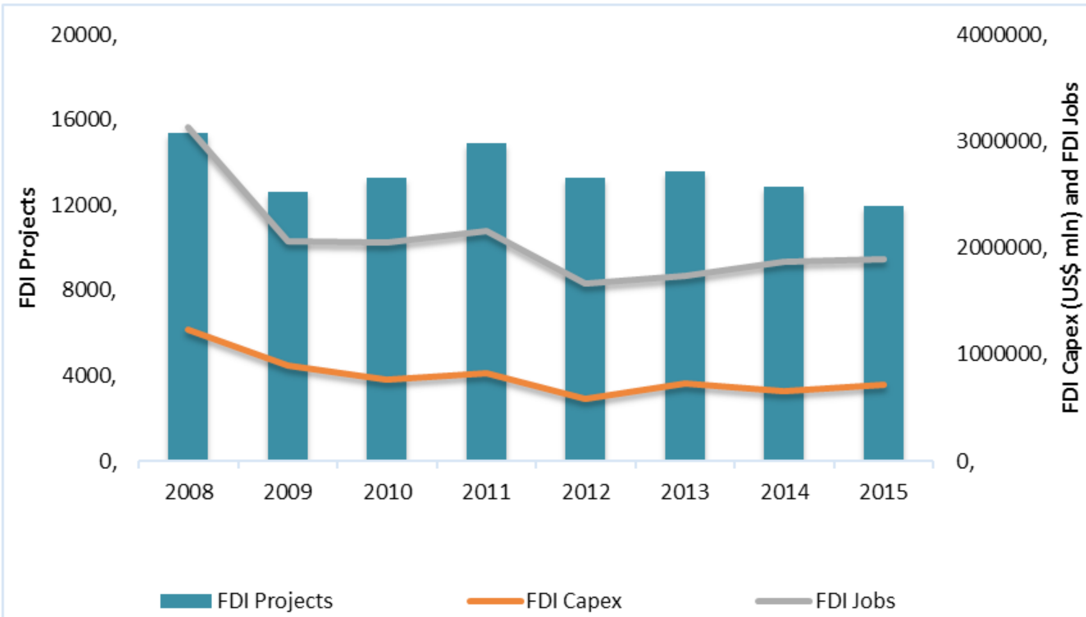
As Figure 8 visualizes, on a global level, last year saw a slight increase of FDI as measured in monetary terms (US$ mln) vis-à-vis 2014. A total of US$712.68 bln worth of FDI projects has been recorded by fDi Markets for 2015, which equals an increase of 8.6% from the US$656.37 bln recorded for 2014. With this increase, the level of global FDI nearly reached the level of 2013 again. Still, these values are considerably lower than the years prior to 2012.

The number of jobs created by these FDI projects is partly in line with the FDI capex trends. With 1,891,000 jobs created by FDI projects around the world over 2015, the number is just slightly higher than in 2014, when 1,868,000 jobs were created through FDI. Despite the fact these numbers are higher than in 2012, the year in which FDI capex and FDI jobs plunged, they remain much lower than the value of FDI capex and number of FDI jobs prior to 2012.

These slightly positive signs may be somewhat misleading, however. In terms of absolute number of FDI projects, 2015 experienced a decline of 7.4% compared to 2014, with just over 11,900 FDI projects vis-à-vis nearly 12,900 FDI projects in the previous year. As a matter of fact, this number is an all-time record low since 2008 and is the second subsequent year the number of FDI projects has decreased considerably. During 2012 and 2013, the number of FDI projects has remained stable after which a decline has been recorded for 2014 and 2015.

Given the fact fDi Markets registers FDI at firm-level (i.e. for each FDI project there is a source country as well as a destination country), these numbers are exactly similar for both global outward as well as inward FDI.

Figure 8: Overview of global number of FDI projects, FDI capex and FDI jobs, 2008-2015

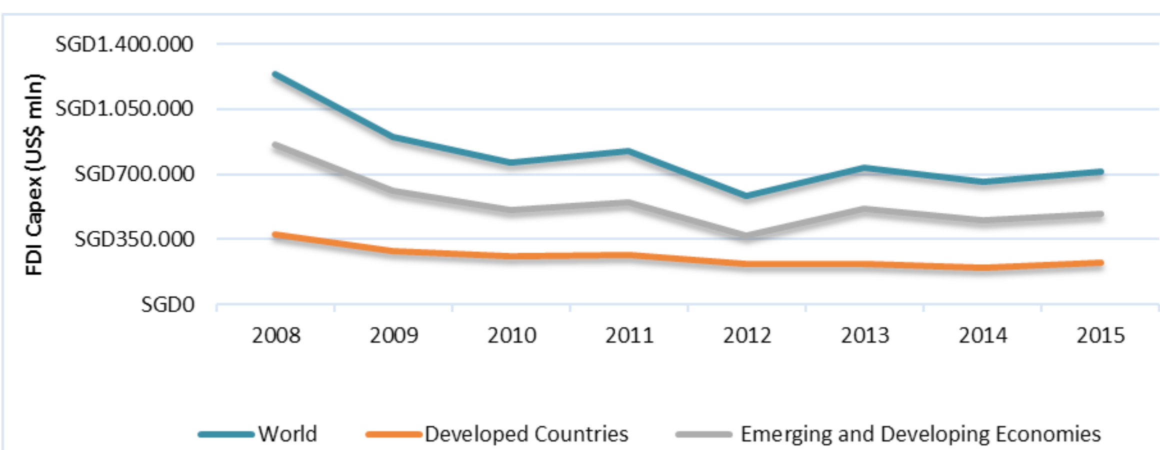


Source: fDi Markets, fDi Intelligence from Financial Times Ltd. Date range: 2008-2015

World Regions – Inward FDI Trends

As of 2015, a little over 30% of all global FDI is destined for developed countries. This implies a more or less stable trend as the ratio of inwards FDI has been roughly 30:70 for developing versus emerging and developing economies from 2008 to 2015. Except for 2012, when the lowest level of FDI was recorded (the ratio equaled 37:63) as global FDI disproportionately affected FDI flows towards emerging and developing economies. The global trend seems to lean toward emerging and developing economies since FDI flows comprise the global majority.

Figure 9: Overview of global FDI inflows and flows to developed and emerging and developing economies, 2008-2015



Source: fDi Markets, fDi Intelligence from Financial Times Ltd. Date range: 2008-2015

Europe[15] and, to a lesser extent, North America continue to remain popular destinations for global FDI. In terms of number of FDI projects, it could be argued that this core cluster has been joined by South-East Asia, whose share of global FDI projects rose to 11.6% over 2015. This is in contrast to East Asia's share, which shrunk to below 10.0% of all global FDI projects. South-East Asia and South Asia have joined Europe at the expense of East Asia as most popular destinations for FDI in terms of capex (16.0% and 12.9% in 2015, respectively). In fact, South-East Asia has surpassed Europe as world region in which most jobs have been created as a result of attracted FDI (19.9% against 16.9% in 2015) while South Asia has overtaken East Asia's job creation position (13.1% against 11.6% in 2015).

UNCTAD noted a strong surge in FDI directed towards the EU over 2015. However, the figures presented by fDi Markets do not reflect this. Indeed, as confirmed by UNCTAD, the growth of FDI into the EU is largely driven by mergers and acquisitions (M&A) and corporate reconfigurations as opposed to greenfield FDI[16] (measured exclusively by fDi Markets).

Strikingly, several world regions seem to perform poorly across all ranks. This is the case for Europe (mainly the EU), East Asia, West Asia (mainly the countries around the Gulf), South America and the Transition Economies. The falling global share of the Transition Economies may be explained by regional geopolitical conflicts (e.g. crisis in Ukraine) and lower international commodity prices.[17] Remarkably, three of these regions include BRICS countries – formerly thought to be the next major global growth cluster. Regions in question are China (East Asia), Brazil (South America) and Russia (Transition Economies). Their shrinking share of FDI in the world regions in which they are located may be related to their poor recent FDI performance.

On the other hand, a number of regions have increased their share of global FDI projects, capex and jobs. As has already been demonstrated, the FDI performance of South-East Asia and South Asia is particularly strong, followed on a distance by North America. As destination for FDI, the entirety of Africa (consisting of North Africa and Sub-Saharan Africa) seems to have remained rather stable across all ranks despite the fact that the continent has been hit by the end of the commodity "super-cycle", which negatively affected resource-seeking FDI.[18] The same is true for Central America & Caribbean, where its shares of global FDI inflows have remained rather stable despite slowing new investments in natural resources due to falling profit margins and reduced reinvestment by the region's commodity exporters.

Of all global FDI projects, half is directed to developing economies (50.9%) while the other half is located in developed economies (49.1%),turning slightly in favor of the developed economies in 2015. As destination regions for FDI capex and FDI jobs, the developing economies have clearly attracted the largest share, with 68.6% of all global FDI capex and nearly three-quarters of all global FDI jobs. This contradicts with UNCTAD data, which demonstrates FDI capex flows into the developed economies actually account for 55% in 2015.[19] Again, this should be attributed to the fact that UNCTAD's FDI data also features M&A activity.

15 See list of countries per world region (UNCTAD) in Appendix A
16 UNCTAD (2016)
17 UNCTAD (2016)
18 UNCTAD (2016)
19 UNCTAD (2016)

Table 3: Change in share of global FDI inflows per world region over 2015 compared to 2008-2014

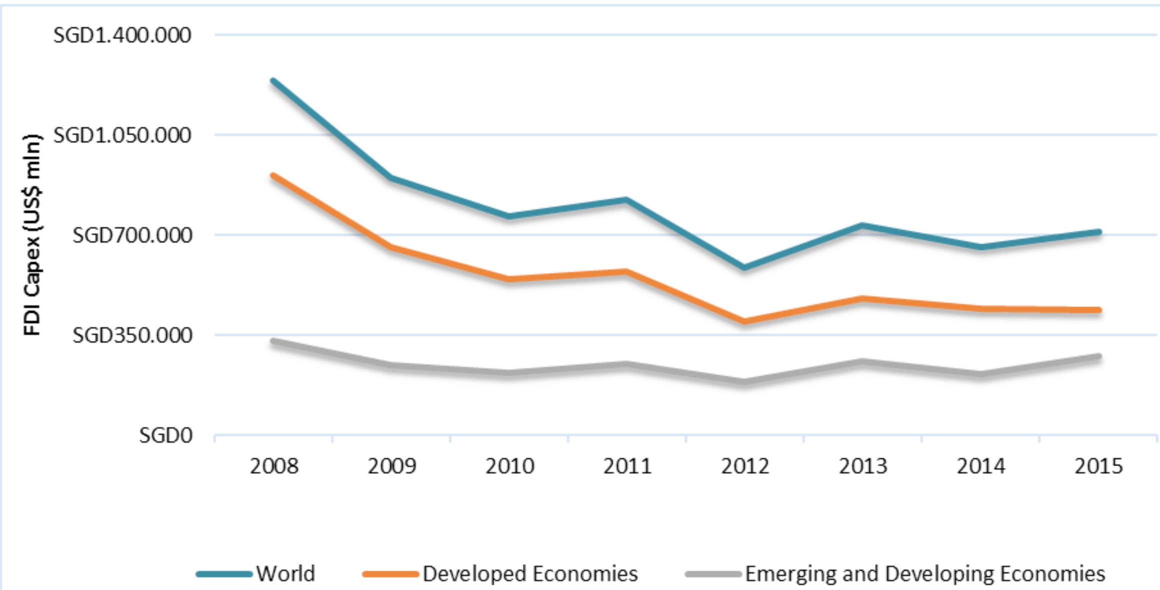
	FDI Projects			FDI Capex			FDI Jobs		
	2008-2014	2015	Change	2008-2014	2015	Change	2008-2014	2015	Change
Europe	31.3%	30.2%	-1.1%	19.2%	18.2%	-1.0%	19.6%	16.9%	-2.7%
North America	12.2%	14.5%	+2.3%	9.3%	9.7%	+0.4%	7.0%	8.0%	+1.0%
Other Developed Economies	3.9%	4.4%	+0.5%	3.6%	3.5%	-0.1%	2.3%	2.5%	+0.3%
Developed Economies	47.4%	49.1%	+1.7%	32.1%	31.4%	-0.7%	28.9%	27.4%	-1.4%
North Africa	1.6%	1.3%	-0.2%	3.0%	3.0%	+0.1%	2.5%	2.5%	0.0%
Sub-Saharan Africa	3.9%	4.6%	+0.7%	6.6%	6.7%	0.0%	4.5%	5.0%	+0.4%
East Asia	11.3%	9.2%	-2.1%	13.2%	11.2%	-2.0%	15.6%	11.6%	-4.0%
South-East Asia	9.4%	11.6%	+2.1%	11.4%	16.0%	+4.6%	13.6%	19.9%	+6.2%
South Asia	6.1%	6.7%	+0.6%	6.0%	12.9%	+6.9%	9.8%	13.1%	+3.3%
West Asia	6.0%	5.5%	-0.5%	8.3%	4.1%	-4.2%	4.8%	3.0%	-1.8%
South America	5.5%	4.3%	-1.2%	8.4%	5.3%	-3.1%	6.6%	4.3%	-2.3%
Central America & Caribbean	3.7%	4.1%	+0.4%	5.3%	4.5%	-0.7%	6.6%	8.2%	+1.6%
Oceania	0.1%	0.1%	0.0%	0.3%	0.1%	-0.3%	0.1%	0.1%	0.0%
Transition Economies	5.0%	3.4%	-1.6%	5.4%	4.8%	-0.6%	7.0%	4.9%	-2.0%
Developing Economies	52.6%	50.9%	-1.7%	67.9%	68.6%	+0.7%	71.1%	72.6%	+1.4%
Total - Global	100.0%	100.0%	-	100.0%	100.0%	-	100.0%	100.0%	-

Source: fDi Markets, fDi Intelligence from Financial Times Ltd. Date range: 2008-2015

World Regions – Outward FDI Trends

Clearly, the general pattern of outward FDI follows the same trend as global inward FDI flows as every FDI greenfield project registered by fDi Markets both a source country as well as destination country has been recorded. Both flows are in balance.

Figure 10: Overview of global FDI outflows and flows to developed and emerging and developing economies, 2008-2015



Source: fDi Markets, fDi Intelligence from Financial Times Ltd. Date range: 2008-2015

However, regional trend flows from developed and emerging and developing economies differ from the global pattern. First, the ratio is reversed as about 60% (or US$438.0 bln) of global FDI flows is sourced from the developed economies in 2015, leaving 40% (or US$275.0 bln) from emerging and developing countries. This ratio has not, however, remained stable over the last few years. In fact, it came down from roughly 75% of global FDI sourced from developed economies in 2008 to approximately 70.0% in 2011 and in 2015 to just 61.4%. This downward trend for FDI from developed economies is clear. Especially over 2015, this ratio has converged, with more FDI than ever originating from emerging and developing economies.

Despite the fact that Europe and North America continue to dominate as source regions for FDI (combined still make up for nearly 70% of all FDI projects worldwide and half of all global FDI capex and jobs), their global shares have decreased over 2015. This is also the case for Europe. In this ranking, Europe and North America are followed by the Other Developed Economies (including Japan), whilst East Asia has furthered strengthened its position as source region for FDI capex (17.0% in 2015) and jobs (17.9% in 2015).

The largest difference vis-à-vis the global inward FDI trends is the fact that East Asia's share as a source for FDI has increased across all ranks (against a decreased share for inward FDI), whilst South Asia's role as a source for global FDI remains rather stable (against an increased share for inward FDI). South-East Asia seems to have further strengthened its position as both destination as well as source region for FDI.

In addition to South Asia, the share for a number of world regions has remained constant. This is the case for most of the world regions, including the Other Developed Economies, North Africa, Sub-Saharan Africa, West Asia, South America, Central America & Caribbean, Oceania and the Transition Economies.

As opposed to the global FDI inflows, the picture for the division between global FDI outflows from developed and developing economies is strikingly different. The developed economies continue to dominate as source regions of global

FDI with nearly four out of five global FDI projects originating from the developed economies and over 60% of global FDI capex and FDI jobs sourced from this region. However, these shares have come down drastically over 2015 compared to the previous period, particularly for the share of the developed economies as source for FDI capex and FDI jobs (-8.6% and -7.0% over 2015, respectively).

Table 4: Change in share of global FDI outflows per world region over 2015 compared to 2008-2014

	FDI Projects				FDI Capex				FDI Jobs		
	2008-2014	2015	Change		2008-2014	2015	Change		2008-2014	2015	Change
Europe	46.2%	43.8%	-2.4%		39.2%	33.9%	-5.3%		38.5%	32.6%	-6.0%
North America	25.0%	24.7%	-0.3%		20.9%	17.8%	-3.1%		21.8%	21.0%	-0.8%
Other Developed Economies	9.6%	10.2%	+0.6%		10.0%	9.7%	-0.3%		12.7%	12.4%	-0.3%
Developed Economies	80.9%	78.8%	-2.1%		70.1%	61.4%	-8.6%		72.9%	65.9%	-7.0%
North Africa	0.3%	0.3%	+0.1%		0.3%	0.8%	+0.5%		0.2%	0.6%	+0.3%
Sub-Saharan Africa	1.2%	1.3%	+0.1%		1.6%	0.9%	-0.7%		0.9%	0.7%	-0.2%
East Asia	6.2%	8.3%	+2.0%		11.2%	17.0%	+5.9%		11.8%	17.9%	+6.1%
South-East Asia	2.4%	3.2%	+0.8%		4.3%	7.8%	+3.4%		4.2%	6.7%	+2.4%
South Asia	2.6%	2.8%	+0.2%		2.7%	2.2%	-0.6%		2.8%	2.5%	-0.3%
West Asia	3.2%	2.6%	-0.6%		5.9%	6.7%	+0.8%		4.2%	3.2%	-0.9%
South America	1.1%	0.9%	-0.2%		1.3%	0.6%	-0.7%		1.2%	0.8%	-0.4%
Central America & Caribbean	0.5%	0.5%	0.0%		0.6%	0.5%	-0.1%		0.5%	0.8%	+0.2%
Oceania	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%		0.0%	0.0%	0.0%
Transition Economies	1.6%	1.3%	-0.3%		2.0%	2.1%	+0.1%		1.3%	0.9%	-0.3%
Developing Economies	19.1%	21.2%	+2.1%		29.9%	38.6%	+8.6%		27.1%	34.1%	+7.0%
Total - Global	100.0%	100.0%	-		100.0%	100.0%	-		100.0%	100.0%	-

Source: fDi Markets, fDi Intelligence from Financial Times Ltd. Date range: 2008-2015

Future

UNCTAD expects global FDI flows to decline in 2016 as the worldwide trend of consolidation through cross-border M&A deals and corporate reconfigurations continues.[20] It is important, however, to note that this contradicts the forecast presented in UNCTAD's most recent World Investment Report 2015 (reporting FDI flows up to and including 2014). The econometric forecasting model predicted an increase of global FDI flows to US$1.5 trillion in 2016 and US$1.7 trillion in 2017.[21] The updated forecast which expects a decline in 2016 is spurred by the uncertainty and volatility of both the macro-economic as well as geopolitical conditions and may lead to a stagnating trend of greenfield FDI on a global level and, particularly, in a number of developing economies.

20 UNCTAD (2016)

21 UNCTAD (2015b)

However, the global outlook is not entirely pessimistic. Based on a survey among 1,000 top managers in companies across 89 countries carried out by UNCTAD for its 2015 World Investment Report, the general perception among these top managers is that FDI flows will increase over the next few years. This is based on good economic prospects in North America and the BRICS, increased regional integration and offshore outsourcing of services and manufacturing activities. These survey results may not be in line with recent developments but still indicate expansion ambitions across MNEs. A survey among senior executives of the world's leading corporations undertaken by A.T. Kearney indicated that 29% of the respondents expects the level of FDI to be returned to pre-crisis levels by 2016, followed by 17% in 2017 and another 17% expects these levels have returned by 2018 or later.[22] Furthermore, the confidence of investors could be strengthened due to stabilizing macroeconomic conditions (i.e. in case a projected global economic growth of 2.9% in 2016 will be realized[23]), leading to an incentive to undertake FDI. Depreciation of currencies in a number of emerging markets may further encourage FDI.

22 A.T. Kearney (2015)

23 UNCTAD (2016)

Chapter 2: Key Trends in Inward Investment to Emerging Economies

FDI is changing not only in terms of amount, but also in type and in direction. Many nations that were once primarily described as "developing" are themselves now generating outward FDI. Likewise, FDI itself is not just limited to Greenfield investment in the forms of new development. Companies and investors alike are looking at new means for gaining a strategic presence in foreign markets.

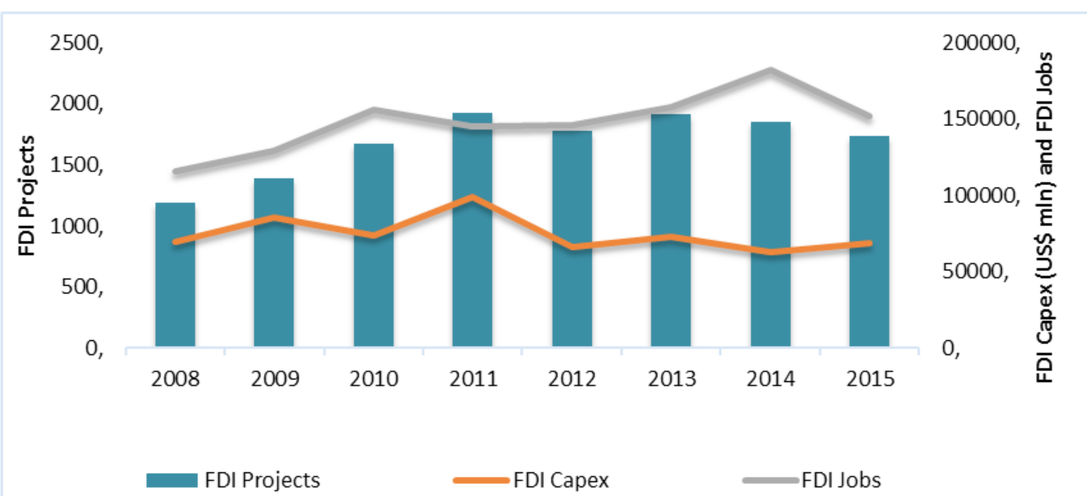
Elaborating on this, one of the key findings of Chapter 2 is the fact that the number of FDI projects directed to the BRICS countries in 2015 is at a record low since 2008, a continuing trend which began in 2011. However, the value of these FDI projects into the BRICS has increased slightly to US$153.3 bln in 2015. China and India's FDI performances appear to have converged further. In 2015, India's share of FDI capex and jobs is larger than China's. It seems the decline in shares of global inward FDI of a number of world regions (e.g. East Asia, South America and the Transition Economies) may be linked to the poor performance of BRICS countries located in these regions (China, Brazil and Russia, respectively). The opposite is the case for South Asia, which reflects India's strong FDI performance. As opposed to the BRICS countries, 2015 was a record high year for the Next-11 countries as they attracted a total US$156.1 bln together with 418,100 jobs. Mexico, Vietnam and Indonesia remain the most popular destinations for FDI among the Next-11 countries but have recently been joined by the Philippines. Turkey, on the contrary, has lost its position as one of the most popular FDI destination. Last year has been a poor year for the six GGC countries with a record low number of FDI projects and decreasing FDI capex value. With regards to Africa as destination for FDI, despite infrastructure continues to attract substantial investment, many emerging market investors are focusing mainly on the agricultural, industrial, and service sectors. This is due to growth in consumer spending and strong, competitive, regional and global advantages that a number of African countries offer.

Regional

North America

The number of FDI projects into Canada and the US has declined from over 1,900 FDI projects in 2013 to 1,734 in 2015. These 1,734 FDI projects represent a capex value of US$68.8 bln, a slight increase of US$6.0 bln compared to 2014. More prominent is the steep drop in number of jobs that have been created by these FDI projects. A total of 151,600 jobs have been created by FDI projects across North America in 2015 as opposed to more than 181,800 jobs in 2014. This implies a halt in the upward trend in terms of FDI job creation that had sustained since 2011.

Figure 11: Inward FDI trends overview for North America, 2008-2015



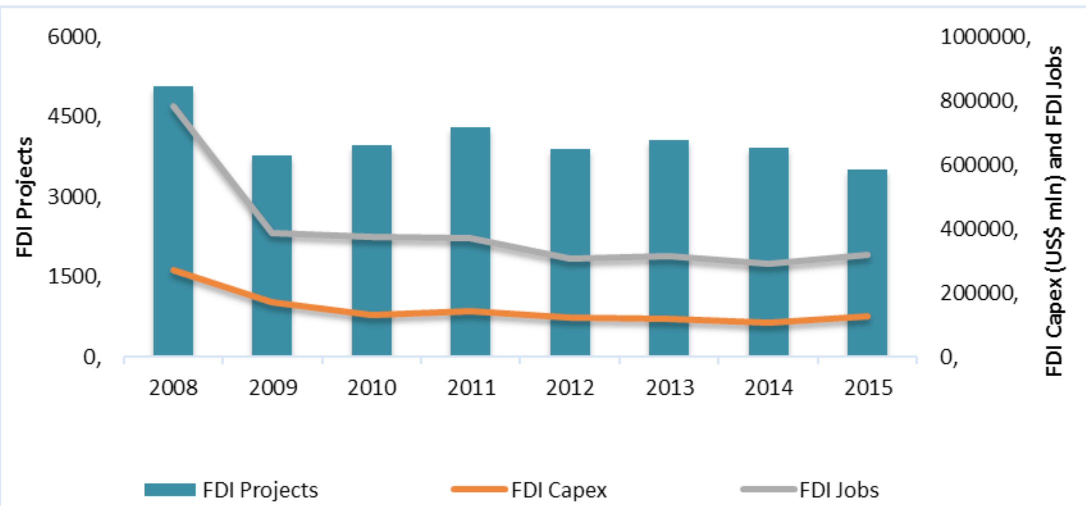
Source: fDi Markets, fDi Intelligence from Financial Times Ltd. Date range: 2008-2015

EU-28

Over 2015, the 28 EU member states attracted over 3,500 FDI projects, collectively representing a capex of US$126.8 bln. These 3,500 FDI projects created over 316,000 new jobs across the member states. The number of FDI projects into the EU-28 has gradually decreased from 2013 onwards. However, the capex value of the FDI projects and jobs created by FDI are both at the pre-2012 level of (US$122.9 bln and 304,500, respectively).

The region's most popular destination country is the United Kingdom (UK), which attracted 974 FDI projects (or 27.8% of all FDI projects into the EU-28) over 2015 compared to 360 FDI projects (or 10.2% of all FDI projects into the EU-28) for both Germany and France. The trend is even stronger for capex and jobs generated by these FDI projects. The UK attracted US$52.3 bln worth of FDI (or 42.0% of all FDI capex attracted into the EU-28) and over 72,600 FDI jobs (or 23.0% of all FDI jobs created in the EU-28). The country is followed by Spain with US$10.4 bln (8.2% of all FDI capex attracted into the EU-28) and Poland, which attracted over 34,000 FDI jobs (11.0% of all FDI jobs created in the EU-28) in 2015.

Figure 12: Inward FDI trends overview for EU-28, 2008-2015



Source: fDi Markets, fDi Intelligence from Financial Times Ltd. Date range: 2008-2015

The dominance of the UK as most popular destination country for FDI within the EU-28 continued through 2015. Indeed, this position has been reinforced over the last year since the UK's share of FDI projects into the EU-28 further increased with 6.6% from 21.2% over the period 2008-2014 to 27.8% in 2015. In terms of capex generated by FDI, the growth of the UK's share into the EU-28 is even more spectacular with an increase of 16.4% (from 25.6% in 2008-2014 to 42.0% in 2015). Regarding its share of jobs created by FDI across the EU-28, the increase of 6.9% is more modest (from 16.0% in 2008-2014 to 23.0% in 2015). For Ireland, a similar but less pronounced trend is observable as its share of FDI projects into the EU-28 increased with 1.3% to 5.1% in 2015 with similar increases in EU-28 shares for capex (1.2% to 4.3% In 2015) and jobs (1.0% to 3.9% In 2015) generated by FDI.

A number of EU member states did not fare well in 2015 as compared to previous years. Most notable is the poor performance of Romania and Poland, which saw their shares of FDI projects, capex and jobs into the EU-28 drop over 2015 compared to the period from 2008 to 2014. Germany has also been confronted with sharp decreases in both its share of FDI projects into the EU-28 (-7.5% to 10.4% in 2015) as well as capex generated by FDI across the EU-28 (-4.2% to 5.4% in 2015). France – despite the modest increase of 0.9% in its share of FDI projects into the EU-28 – and Italy complement the weaker performing EU member states.

Table 5: Top-5 and bottom-5 change in EU-28 share over 2015 compared to 2008-2014

FDI Projects			FDI Capex			FDI Jobs	
UK	+6.6%		UK	+16.4%		UK	+6.9%
Belgium	+2.5%		Ireland	+1.2%		Czech Republic	+1.7%
Finland	+1.9%		Slovakia	+0.9%		Netherlands	+1.1%
Ireland	+1.3%		Denmark	+0.7%		Ireland	+1.0%
France	+0.9%		Spain	+0.6%		Hungary	+0.8%
Poland	-0.6%		France	-1.0%		Italy	-0.7%
Italy	-0.7%		Greece	-1.2%		France	-0.8%
Romania	-0.9%		Poland	-3.4%		Croatia	-1.1%
Spain	-1.0%		Germany	-4.2%		Poland	-3.3%
Germany	-7.5%		Romania	-4.6%		Romania	-5.0%

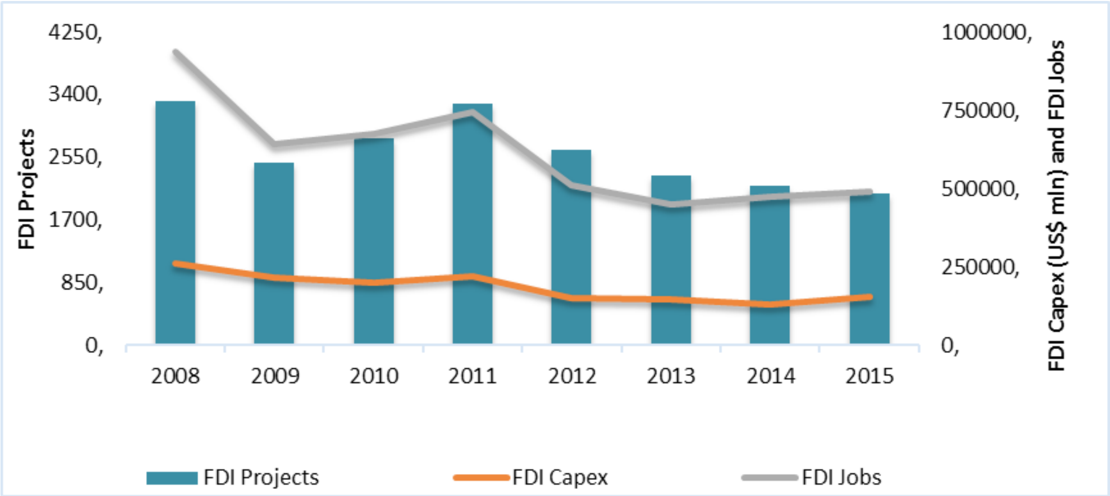
Source: fDi Markets, fDi Intelligence from Financial Times Ltd. Date range: 2008-2015

BRICS

The number of FDI projects into Brazil, Russia, India, China and South Arica – the five BRICS countries – is just over 2,000 FDI projects (a record low since 2008) continuing a trend which began in 2011. However, the value of these FDI projects into the BRICS has increased from US$130.2 bln in the previous year to US$153.3 bln in 2015.

In addition, a total of 489,000 jobs have been created by inward FDI across the five BRICS countries in 2015, a slight increase of 15,600 jobs compared to 2014 and a relatively robust performance compared to the sharp decreases in 2013 and, in particular, 2012. Nevertheless, the value of capex and jobs attracted by FDI into the BRICS are considerably lower than these values prior to 2012.

Figure 13: Inward FDI trends overview for BRICS, 2008-2015



Source: fDi Markets, fDi Intelligence from Financial Times Ltd. Date range: 2008-2015

Among the five BRICS countries, China remains the most popular investment location for FDI with 789 FDI projects worth US$56.6 bln and 181,500 jobs, and is followed by India (697 FDI projects) and, on a distance, by Brazil (268 FDI projects), Russia (179 FDI projects) and South Africa (118 FDI projects).As of 2015, however, India surpassed China in terms of both capital and jobs generated by the attracted FDI projects. India attracted over US$63.0 worth of FDI over 2015, creating 222,700 jobs.

China and India's performance appears to have converged further in terms of the number of FDI projects both countries attracted. China still attracted 42.6% of all FDI projects into the BRICS over the period 2008-2014, but over 2015, China's share fell to 38.5%. The number of FDI projects China attracted in 2015 is the lowest it has been since 2008. On the other hand, India's share of FDI projects into the BRICS increased from 27.4% from 2008-2014 to 34.0% in 2015. Russia's share of FDI projects into the BRICS also dropped considerably to 8.7% in 2015.

Regarding the FDI capex directed into the BRICS and the associated jobs created, the portions India attracted have grown to 41.1% and 45.5%, respectively, and have come at the expense of the remaining four BRICS countries, since their shares for both capex and jobs generated by FDI dropped in 2015 when compared to 2008-2014.

Clearly, the decline is strongest for China, which saw its share of FDI capex drop with 10.6% to 36.9% of all FDI capex channeled into the BRICS in 2015, while its share of FDI jobs decreased with 8.2% to 37.1% of all FDI jobs created across the BRICS countries in 2015. Again, 2015 seems to have been the record low year for China's share of BRICS FDI inflows, as well as capex and jobs created. China's decline may have been influenced by changing market conditions and currency exchange rates, which, in turn, contributed to the slowdown of the Chinese economy over 2015. China's wage inflation led to a decreasing cost competitiveness compared to other major FDI destination countries in South-East Asia and Mexico, which may also have adversely affected Chinese FDI inflows.

As opposed to China, 2015 has proven to be a very successful year of India's inward FDI performance. India's success may be linked to a number of FDI-specific measures it has introduced. These includes, amongst others,

- A simplification of the rules on caps for FDI in certain related sectors;
- An amendment of the definition of non-residents whose investment in India is considered FDI;[24] and
- The launch of the "Make in India" investment promotion program in September 2014.[25]

Brazil, facing macro-economic slowdown[26] and a potential economic crisis in combination with political uncertainty, double-digit inflation, excessive red tape and strict tax and labor procedures[27], has been confronted with considerable decline in its shares of BRICS FDI inflows.

As mentioned, the geopolitical tensions between Russia, Ukraine and a number of other countries together with international sanctions[28], bureaucracy and uncertainty about the rule of law[29] have contributed to a loss of investors' confidence in the country and consequently resulted in a drop of Russia's share of FDI into the BRICS.

Uncertainty, particularly concerning changes in policy and legislation[30], is also the cause of South Africa's declining share of FDI into the BRICs. The country's structural issues with energy supply, logistics and labor productivity[31] (e.g. strikes and unrest) may have added to its poor FDI performance.

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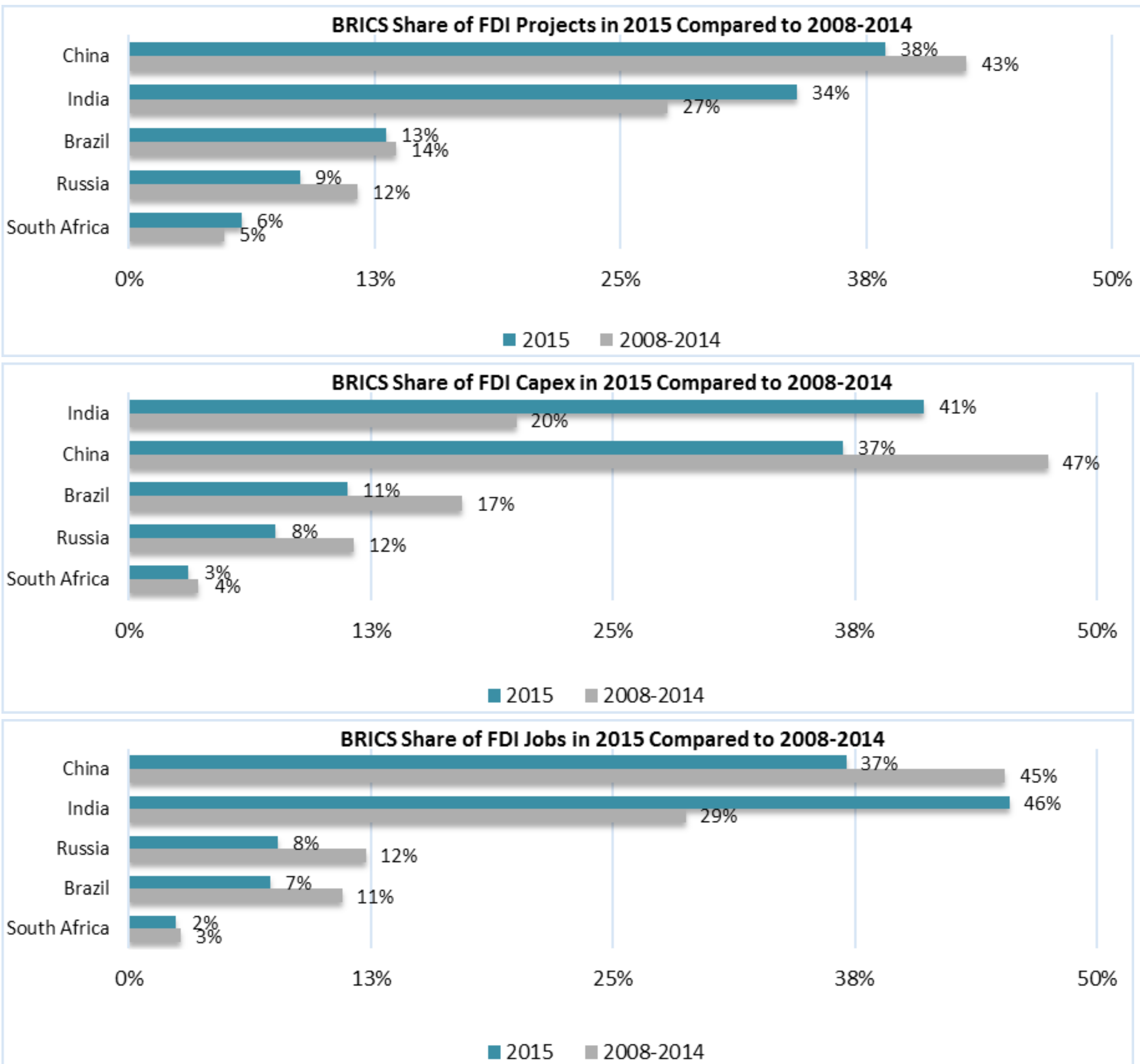
24 OECD & UNCTAD (2015)
25 The Economic Times (2015a)
26 Financial Times (2015a)
27 Santander TradePortal (2016a)
28 Financial Times (2015b)
29 Santander TradePortal (2016b)
30 Santander TradePortal (2016c)
31 Mail & Guardian (2015)

Thus, as noted at the beginning of this chapter, it appears the decline in global shares of a number of world regions in FDI may be linked to the poor performance of some BRICS countries (e.g. East Asia, South America and the Transition Economies), whilst the opposite is the case for South Asia, which reflects India's successful FDI performance over 2015.

Figure 14: Change in total BRICS share over 2015 compared to 2008-2014

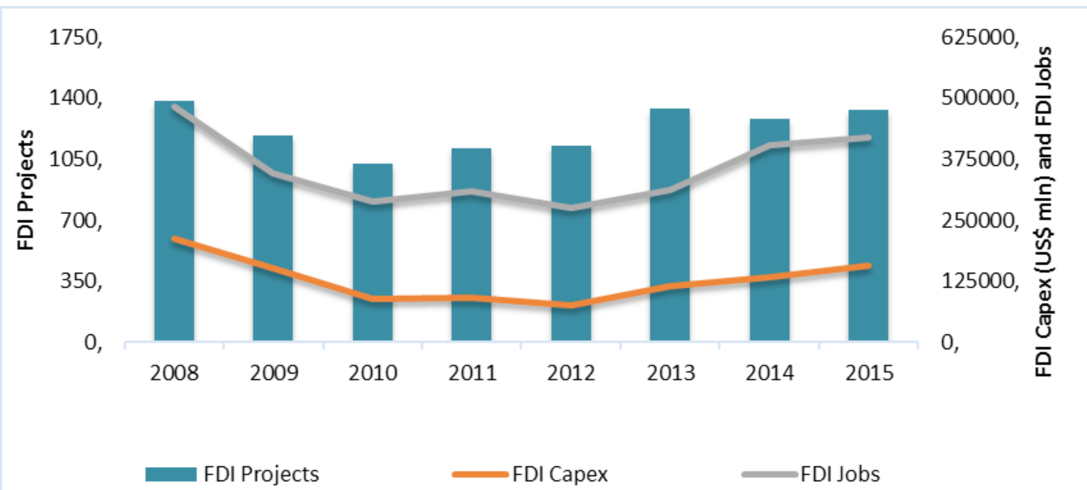


Source: fDi Markets, fDi Intelligence from Financial Times Ltd. Date range: 2008-2015

Next-11

Contrary to the trends in terms of number of FDI projects for North America, EU-28 and BRICS, where 2009, 2010 and 2011 are characterized by upward FDI trends followed by a dip in 2012 and a decrease from 2013 onwards, the trend for the Next-11 countries is different. For the Next-11 countries, 2010 to 2012 were modest years in term of FDI attraction but are subsequently followed by years in which the number of FDI projects increased and remained stable rather than gradually decreased again towards 2015 (as is the case for the other regions). In fact, apart from 2008, in which the Next-11 countries performed very strongly, 2015 was a record high year for the Next-11 countries as they attracted a total capex of US$156.1 bln together with 418,100 jobs.

Figure 15: Inward FDI trends overview for Next-11 countries, 2008-2015



Source: fDi Markets, fDi Intelligence from Financial Times Ltd. Date range: 2008-2015

Because of the variety and geographical heterogeneity in countries that make up the Next-11, trends are not as straightforward as for more homogeneous regions. Nevertheless, it is clear of the Next-11 countries, Mexico, Vietnam and Indonesia are the main recipients of FDI. For 2015, one out of four FDI projects are located in Mexico (26.3% of all Next-11 FDI projects), whilst nearly two out of five FDI projects are located in Vietnam (16.8% of all Next-11 FDI projects). However, both Mexico and Vietnam experienced sharply decreasing shares in terms of FDI capex (down to 15.6% and 13.5%, respectively), from more or less 20.0% of all FDI capex directed to the Next-11 countries in 2015). One out of four jobs generated by FDI across the Next-11 countries in 2015 is created in Mexico (27.0%) and Vietnam (27.7%) each (or half of all the jobs by both Mexico and Vietnam). Despite the fact that Mexico's share among the Next-11 countries has decreased, it still attracts considerable manufacturing FDI as the country profits from China's decreasing cost competitiveness as well as its geographical and economic - through the North American Free Trade Agreement (NAFTA) - proximity to the US.[32]

32 Financial Times (2015a)

Indonesia's share among the Next-11 countries in terms of attracted FDI capital rose considerably to over 25% in 2015. It attracted US$38.5 bln of FDI over 2015, particularly from China (US$10.4 bln), Japan (US$4.6 bln), South Korea (US$4.5 bln) and Singapore (US$4.0 bln) in natural resources (e.g. coal, oil, gas, metals and chemicals). Despite a relatively poor investment climate due to excessive bureaucracy, infrastructure issues, restrictive treatment of foreign ownership and strict labor legislation,[33] it seems investors have gained confidence since the 2014 election of the new government, which has recently announced a "massive deregulation" and policies to reduce red tape to attract foreign investment[34] as well as tax incentives aimed at foreign investors.[35]

Potentially, the Philippines could be added to these three main recipients of FDI. As of 2015, the Philippines has surpassed Indonesia in terms of number of FDI projects as its share increased from 9.3% in 2008-2014 to 12.6% in 2015). The country equals Indonesia's share when it comes to jobs created by FDI (both represent approximately 14.0% in 2015). This observation is in line with the Philippines' steady economic growth of the last years.[36] The US remains the largest investors in the Philippines, followed by Japan and Hong Kong. China plays a very minor role as source country. As opposed to Indonesia, the Philippines has attracted FDI in a wide range of non-natural resources industries, including real estate, business services, automotive and electronic components and financial services. Philippines is, however, lagging behind when it comes to the value of FDI capex it has attracted, equaling 5.5% of the total Next-11 countries in 2015, which is similar to that of Nigeria, South Korea and Turkey.

Despite Turkey capturing a share of 11.0% of FDI projects that have been attracted by the Next-11 countries, it has experienced steep declines in both its share of FDI capex and jobs across the Next-11 countries. From 2008 to 2014, Turkey's shares equaled 10.9% and 8.3%, respectively, but declined drastically to portions of 3.7% and 3.3% of all FDI into the Next-11 countries in 2015. Turkey has now a FDI position similar to Nigeria and South Korea. Political instability and the ongoing unrest in the region boarding Southeast Turkey may have weakened Turkey's image as favorable and secure investment location.

Finally, Pakistan has experienced a sharp increase in its share of total FDI capex channeled into the Next-11 countries, as Pakistan captured only 3.4% of the total FDI capex directed towards Next-11 countries over 2008-2014 but 12.1% in 2015. Pakistan attracted US$7.2 bln FDI from China and US$5.7 bln from the UAE, mostly in the transportation and coal and oil industry. The large increase of Chinese FDI may be explained by the China Pakistan Economic Corridor (CPEC) infrastructure and energy investment project as the country still faces considerable energy and governance issues.[37] This sharp increase is, however, not reflected by its share of FDI projects and jobs created by FDI across the Next-11 countries, which have remained relatively stable.

33 CNBC (2015)

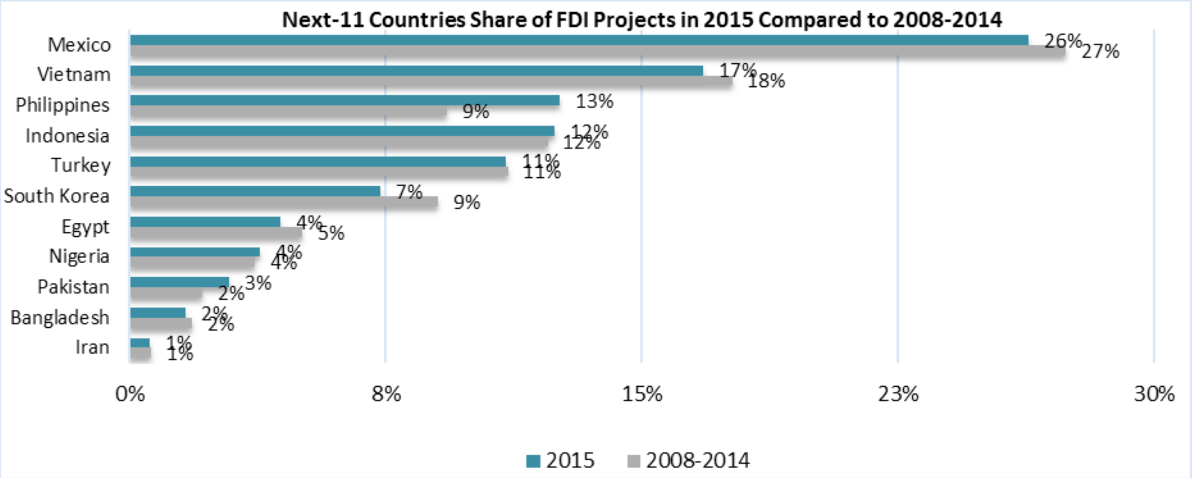
34 The Economist (2015a)

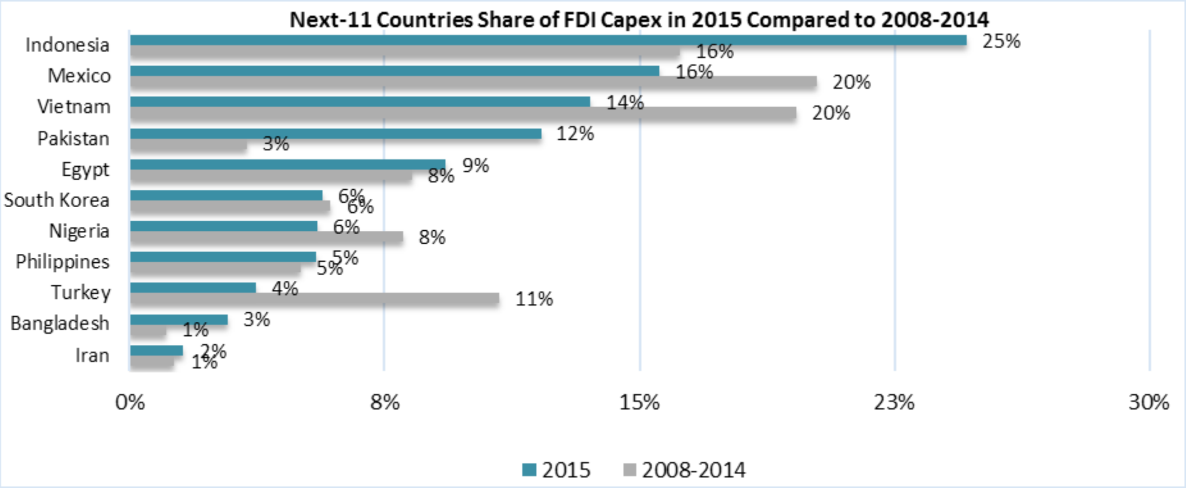
35 The Wall Street Journal (2016)

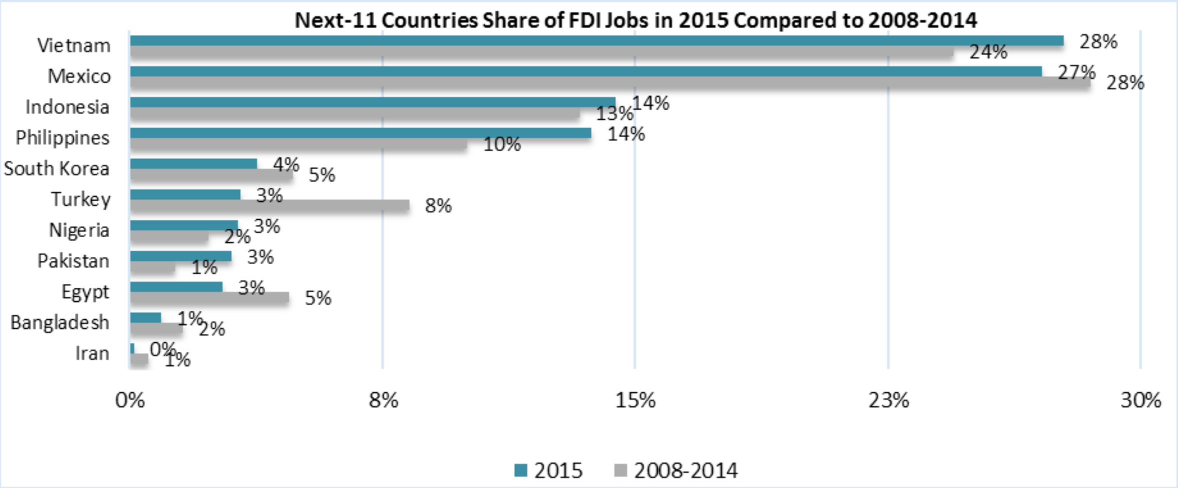
36 Financial Times (2015c)

37 The Express Tribune (2015)

Figure 16: Change in total Next-11 countries share over 2015 compared to 2008-2014







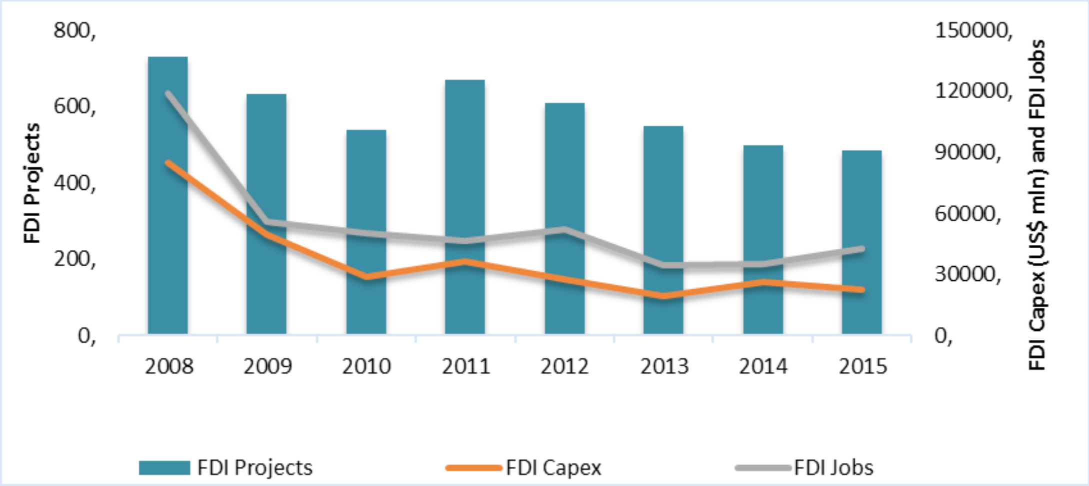
Source: fDi Markets, fDi Intelligence from Financial Times Ltd. Date range: 2008-2015

GCC

Focusing on the countries of the GCC, it appears – just as for the BRICS countries – a downward trend in number of FDI projects is observable from 2011 onwards. A total of 484 FDI projects have been attracted by the six GCC countries, a record low since 2008. As opposed to the BRICS countries, the value of FDI capex directed to the GCC countries has decreased as well. After a modest increase in 2014, a total of US$22.3 bln has been channeled into the GCC region in 2015, which is a decrease of US$4.1 bln. This FDI capex is only US$3.0 bln above the lowest FDI capex value of the last past years, which was realized in 2013 (US$19.3 bln).

In line with the BRICS trend, the number of jobs created by FDI across the six GCC countries slightly increased from 35,400 in 2014 to just below 42,600 in 2015 and is nearly on par with the level of 2011. Still, the value of capex and jobs attracted by FDI into the GCC region are considerably lower than these values prior to 2010.

Figure 17: Inward FDI trends overview for GCC region, 2008-2015



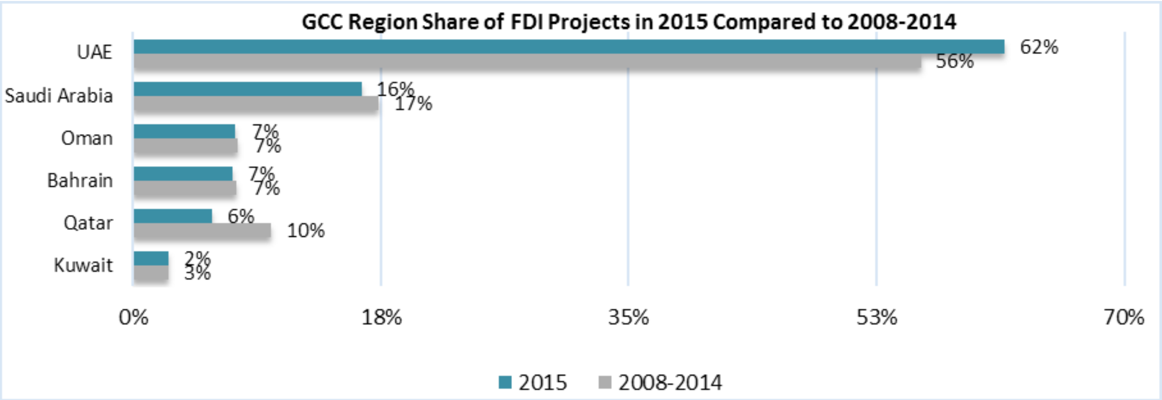
Source: fDi Markets, fDi Intelligence from Financial Times Ltd. Date range: 2008-2015

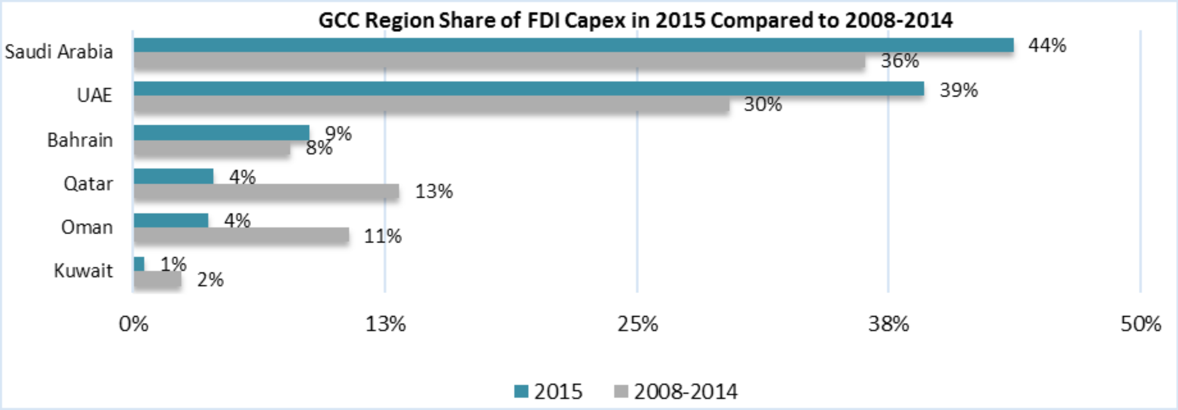
Over 2015, the UAE maintained its dominance with respect to attracting FDI within the GCC region. Over the period 2008-2014, the UAE already captured 55.7% of all FDI projects into the GCC region, which increased to 61.6% over 2015. The UAE comes close to Saudi Arabia as largest attractor of FDI capex. Both countries saw their portions of FDI capex channeled to the GCC region increasing over 2015. Saudi Arabia attracted 43.7% of all FDI capex direct to the GCC countries over 2015 – which can partly be attributed to Saudi Arabia's appeal to capital-intensive FDI in the oil and gas industry. Meanwhile the UAE's share increased considerably from 29.6% in the period 2008-2014 to 39.3% in 2015. The strong position maintained by Saudi Arabia may be related to the fact it opened its stock market to foreign investors last year.[38]

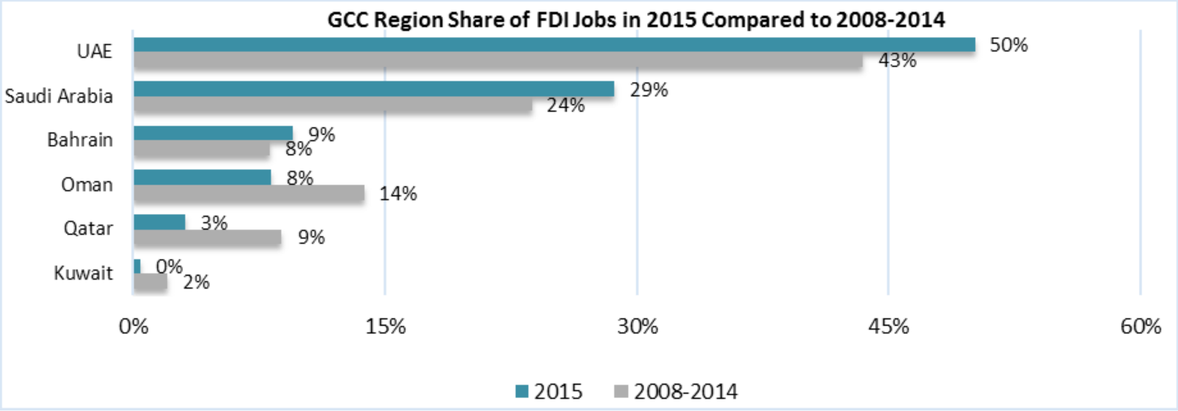
On the contrary, the gap between Saudi Arabia and the UAE in terms of jobs created by FDI widened to the advantage of the UAE. Out of ten jobs created by FDI across the GCC region, five jobs were created in the UAE (50.1%), as opposed to nearly three in Saudi Arabia (28.3%). The increased shares for the UAE have come at the expense of the FDI performance of other GCC countries, notably Qatar and, to a lesser extent, Oman and Kuwait. Over 2015, Qatar experienced considerable decline in its share of FDI projects, capex and jobs directed into the GCC region. In particular intra-regional FDI from the Middle East to Qatar has decreased.

38 OECD & UNCTAD (2015)

Figure 18: Change in total GCC region share over 2015 compared to 2008-2014







Source: fDi Markets, fDi Intelligence from Financial Times Ltd. Date range: 2008-2015

Africa

Falling commodity prices, especially for oil and minerals, depreciating currencies, and declining stock market indices have all contributed to a climate of gloom about emerging markets in general. Africa, seen as heavily dependent on commodity investment, has felt the brunt of this decline. Many investors, especially those from emerging market regions, have been better able to see beyond the headlines to capitalize on the many attractive investment opportunities that Africa continues to offer. Although infrastructure continues to attract substantial investment, many emerging market investors, attracted by growth in consumer spending and strong competitive advantages in regional and global markets enjoyed by a number of African countries are focusing mainly on the agricultural, industrial and service sectors.

A 2015 report by The Economist Intelligence Unit (EIU) highlights Africa's resilience and its ability "to withstand global recession and the current commodity price slump," and argues that "the continent's solid growth rates provide further evidence of economic dynamism outside the traditional mainstays of natural resources. Demographic trends, growing consumer markets, economic stability and an improving business environment have all helped."[39] Indeed, Ethiopia, a country with no oil or gas and few mineral deposits of any value, has boasted Africa's – and the world's – highest Gross Domestic Product (GDP) growth rate, averaging 11.1% a year, from 2006 through 2015.[40] With nearly 100 mln people and annual population growth of 2.5%, Ethiopia's inward FDI has been concentrated in manufacturing and agribusiness.

Although FDI into Africa remains lower, in absolute terms, than into other regions, Africa (both North and sub-Saharan) became the fastest-growing FDI destination in 2014. The continent accounted for US$128 bln, or 17.1% of global foreign investment in 2014, making it the second biggest region after Asia Pacific, which received 36.2% of global FDI. These FDI flows created 188,400 new African jobs, a 68% increase over 2013.[41]

While global FDI into greenfield projects grew by only 1% from 2013 to 2014, Africa recorded a 65% jump in inward flows, reaching US$87.0 bln. This growth is fairly evenly divided between North Africa and sub-Saharan Africa: greenfield FDI flows into North Africa more than doubled, from US$10.0 bln to US$26.0 bln, whilst flows into sub-Saharan Africa rose nearly 50%, from US$42.0 bln to US$61.0 bln.[42]

Within Africa, declines in 2014 FDI into West and Southern Africa – a function of slow GDP growth in South Africa, falling oil and mineral prices, instability and health concerns – FDI into Central and East Africa increased by 33% and 11%, respectively.[43]

FDI into sub-Saharan Africa has long been dominated by resource-seeking investment, especially into oil and gas and minerals, though in some countries forestry and fisheries have captured a significant share of investment flows. But this pattern has begun to change. According to the World Bank, "FDI into Africa is slowly shifting from extractive sectors to services and manufacturing sectors. FDI reached a larger geographic scope over the past five years, with increasing shares received by Southern and Eastern Africa. In addition, there is a significant increase of South-South FDI, including that from new partners led by China, India, and Brazil, and intraregional partners led by South Africa."[44]

Sector Distribution and Non-Resource Sectors

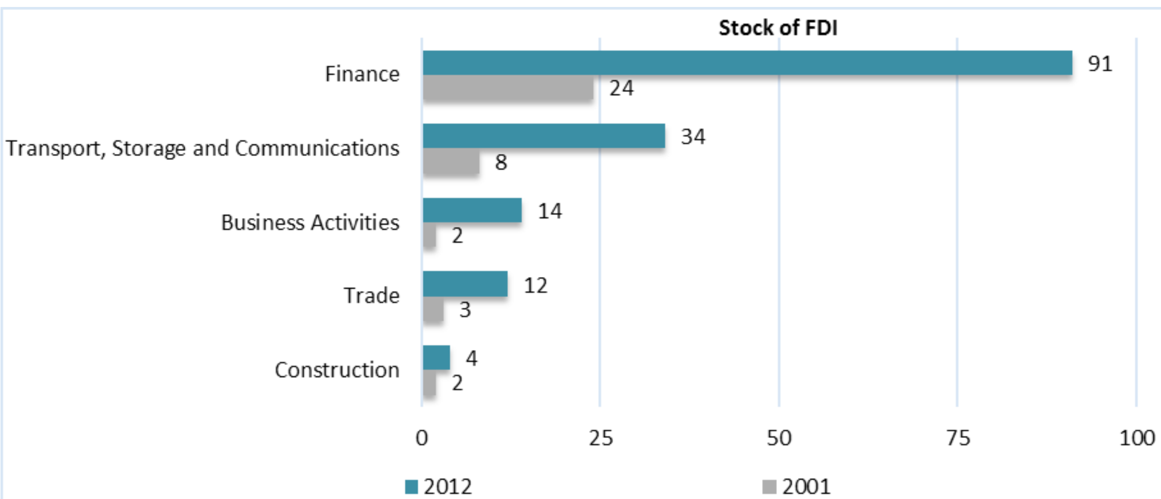
Echoing this perception, consultancy firm EY, in its 2015 Africa Attractiveness Survey, observed, "Two trends defining Africa's future growth path include rising urbanization and a growing consumer class. In line with these trends, FDI data reveals strong inflows into real estate, hospitality and construction (RHC) in 2014. Three consumer-facing sectors — technology, media and telecommunications (TMT); financial services; and consumer products and retail (CPR) again attracted the largest share of investor activity. Respondents to our survey are also excited about prospects in the relatively underexploited agricultural sector."[45]

According to The Financial Times, 57% of companies investing in Africa cited domestic market growth potential as their principal motivation – with 5% overall GDP growth as compared to a global average of 1.5%, this is understandable. Although oil and gas investments still counted for more than a third of 2014 FDI flows, real estate, telecoms, manufacturing, and services received a growing share. In 2013, primary sectors received only 11% of total greenfield FDI by value, whilst manufacturing accounted for 26% and services 63%. More than three-fourths of 2013 FDI into Ethiopia went into the manufacturing sector, whilst in Kenya, manufacturing and services together absorbed about 50% of total FDI.[46]

39 EIU (2015a)
40 World Bank (2015)
41 EY (2015)
42 Fingar, C. (2015)
43 UNCTAD (2015b)
44 Chen, G., Geiger, M., & Fu, M. (2015)
45 EY (2015)
46 EY (2015)

The EY Africa survey confirms this distribution, though with slightly different figures: in 2014, it reports that real estate, hospitality, and construction received the biggest share, or 44%, of FDI into Africa, and coal, oil and natural gas the second-largest with 25%. According to the 2015 UNCTAD World Investment Report, “Some 38 per cent of announced greenfield FDI projects and 33 per cent of related capital expenditure were in manufacturing in 2014… Noteworthy investments took place in manufacturing in Africa, mainly in electronic equipment, motor vehicles and food. In Nigeria, Nissan, Peugeot and Hyundai all began auto assembly in 2014.” In spite of the strong showing of manufacturing, the services sector, which includes construction and finance, dominates, accounting for 60% of projects and 43% of capital expenditures in 2014, and 48% of Africa’s total stock of FDI.[47]

Figure 19: Africa’s stock of FDI in services, 2001 and 2012



Source: UNCTAD, FDI/MNE database

FDI into Africa from other developing countries – often referred to as “South-South investment” – is growing, but traditional sources of investment remain dominant. As the table below shows, more than half of all greenfield investment in Africa in 2014, or approximately US$47.6 bln, came from Western Europe, while North America was the second-largest source region, with US$13.0 bln or about 15.0%.[48]

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47 UNCTAD (2015b)

48 Inward or outward FDI flows in any given year are not necessarily representative of a trend, but can be distorted or exaggerated by a small number of large projects. Hence Greece’s position as the second-biggest source of FDI into Africa in 2014. Virtually all of it is accounted for by two large projects undertaken by petrochemical company Mac Optic, which announced plans to build a US$4.8 billion, 250,000b/d petroleum refinery and a US$5.2 billion petrochemical plant in Egypt’s Suez Governorate, as reported by fDi Intelligence in The Africa Investment Report 2015. Similarly, Canada’s reported US$5.0 billion in FDI is attributable to a single project by Toronto-based SkyPower, to develop a 3,000 MW solar generating installation in Nigeria. Canada is likely to rank high in the list of investors in Africa in 2015 as well, with a US$5.0 billion commitment to build 3,000 MW of solar generating capacity in Egypt and a US$2.2 billion commitment to install 1,000 MW of solar generating capacity in Kenya. It is also worth bearing in mind that project announcements or investment commitments do not always result in the same values of actual investment.

Table 6: Top FDI source countries of FDI into Africa, 2014

Source Country	FDI Capex (US$ bln)	
	Abs.	Rel.
France	$18.0	21.0%
Greece	$10.0	12.0%
US	$8.0	9.0%
China	$6.0	7.0%
Belgium	$5.0	6.0%
Canada	$5.0	6.0%
UAE	$5.0	6.0%
South Africa	$5.0	6.0%
Germany	$3.0	3.0%
UK	$3.0	3.0%
Other	$19.0	22.0%
Total	$87.0	100.0%

Source: fDi Markets, fDi Intelligence from Financial Times Ltd. Date range: 2014

Though China has emerged as Africa's largest trading partner, the size and composition of what the Chinese Government calls "overseas direct investment", or ODI, into Africa is often misunderstood.

As a 2015 Brookings Institution report observed, "Some of the West's biggest concerns over Chinese investment — its true size, its focus on natural resources, and its disregard for good governance — are not always well grounded."[49] China's total FDI stock in sub-Saharan Africa at the end of 2013 amounted to only US$26.0 bln, or 3% of the total, and its 2013-2014 FDI flows into the region amounted to only 4.4% of the total. This is far less than the corresponding stocks and flows from EU countries, the US, and even South Africa. As Table 7 shows, Africa, even as it grows in importance to Chinese investors, remains far less important as an investment destination than developed economies.

Table 7: Chinese outward FDI flows by region (US$ bln), 2011-2014

Region	FDI Capex (US$ bln)			
	2011	2012	2013	2014
Asia-Pacific	$19.0	$7.0	$7.0	$23.0
Latin America and the Caribbean	$7.0	$4.0	$3.0	$10.0
Rest of Europe	$2.0	$2.0	$2.0	$10.0
North America	$3.0	$3.0	$3.0	$10.0
Africa	$2.0	$2.0	$0.3	$6.0
Western Europe	$3.0	$1.0	$5.0	$6.0
Middle East	$5.0	$1.0	$0.2	$1.0
Total	$41.0	$19.0	$21.0	$64.0

Source: fDi Markets, fDi Intelligence from Financial Times Ltd. Date range: 20111-2014

49 Chen, W., Dollar, D., & Tang, H. (2015a)

At the same time, China's US$26.0 bln in FDI stock in Africa is larger than its US$22.0 bln FDI stock in the US, no doubt a reflection of both U.S. regulatory constraints on Chinese acquisitions – such as China National Offshore Oil Corp.'s blocked 2005 bid for Unocal – and Chinese companies' perception of more attractive growth prospects in Africa. In addition, the availability of soft financing by Chinese state institutions for investments in Africa almost certainly influences the direction of Chinese FDI flows.

Brookings research indicates that whereas FDI in general is strongly attracted to good property rights and rule of law, "Chinese Outward FDI (ODI) is attracted to politically stable environments, without reference to the rule of law…[and that] this relationship is not special to Africa but says something about Chinese ODI in general." Moreover, "Deals tend be more concentrated in the East and South African regions, whereas Central and West Africa, with the exception of Nigeria, have relatively fewer deals. In East Africa, countries such as Ethiopia, and to some extent Kenya and Tanzania are relatively resource poor compared to some of the Southern African countries such as Zambia, Angola, and South Africa. Some of the reasons why East Africa stands out as a popular destination for private Chinese investments are its relatively more developed infrastructure, including ports, and its relative closeness to China. The East African Community (EAC), in particular, forms a customs and single market trading union that has invested heavily in infrastructure investments, mostly with loans from the Chinese government."[50]

African multinationals are accounting for a growing portion of FDI into African countries. UNCTAD reports that in 2014 African investors accounted for 31% of total planned capital expenditure in greenfield FDI projects in Africa. This includes 21% of all such projects in transport, storage, and communications, led by South Africa s MTN, which in 2013 established data centers and 4G projects in Côte d Ivoire, Ghana, Swaziland and Uganda in 2013. African banks account for the bulk of FDI in Africa s financial sector, led by Nigerian, Kenyan, and South African institutions, as well as Togo s Ecobank, the largest regional bank in West Africa.

Future

North America

As one of the main sources and destinations of FDI, a profound economic growth for North America is essential for global flows of FDI. The average real GDP growth for 2017-2018 is forecast at 2.5% but will drop to above 1.0% in 2019 due to a mild recession.[51] Nevertheless, the business environment of the North America will remain among the most attractive in the world as policies are open and transparent in combination with a very flexible labor market and access to a large, stable and affluent internal market. Concerns that need to be addressed include physical infrastructure, education and financial and fiscal government policies.

EU-28

Just as important as North America is to the future economic development, so too will the EU-28 affect global flows of FDI. In the short-term, the EU-28, mainly related to the Eurozone, will continue to face the challenge of very low inflation, economic slowdown and high unemployment rates across a number of member states. On the other hand, the EU-28 remains one of the world's largest well-developed consumer markets. The recovery of the economy of the Eurozone is expected to continue at a rate of 1.6% in 2016 and 2017.[52]

BRICS

The fact that FDI into China has slowed down over 2015 reflects the status of its economy. Decreasing cost competitiveness and increasingly attractive investment climate in neighboring countries has reduced greenfield FDI into China and forced companies to undertake M&A in China. The expected economic growth will drop to an average rate of 6.5% over 2016 down from 6.9% in 2015; the medium-term outlook is even more modest, with an annual average growth rate of 4.7% in 2020.[53] Despite this further slow-down of the economy, China's outward FDI is still expected to increase considerably over the next

50 Chen, W., Dollar, D., & Tang, H. (2015b)
51 EIU (2015b)
52 Focus Economics (2016)
53 EIU (2015c)

years, supported by the government. This will seriously affect a wider range of interest by Chinese investors (e.g. services and infrastructure). However, should the Chinese economy lose more power, Chinese outward FDI may be limited by restrictions and controls on capital outflows.[54]

India's economy is expected to grow at an average annual rate of 7.3% from 2016 to 2020[55] and is mainly driven by domestic consumption and an expansion of the services sector. Consequently, market-seeking and services-orientated FDI flows into India may be expected to further increase.

Despite the fact that the recession in Russia may ease and contract to 1.3% in 2016[56], Russia's issues (e.g. international sanctions, low commodity prices, weak banking sector, absence of coherent economic policy) are too structural to expect a strong short-term increase in both inward and outward FDI. Geopolitical tensions, in particular, put a considerable risk on investment and limit inward FDI. However, despite the fact the Russian economy contracted in 2015, foreign investors continued to invest in the primary sector[57] and a mild recovery is expected from 2017 up to 2020.

Similar to Russia, Brazil's economy is expected to contract in 2016 to a rate of 3.1% after a modest rebound is expected from 2017 onwards, assuming inflation will ease and the fiscal balance has improved.[58] This may lead to a dampening of the market opportunity for FDI into Brazil. However, together with Mexico, Brazil is expected to remain one of the most popular destinations for FDI across Latin America though its business environment seriously hinders FDI inflows and structural reforms are required to revitalize its FDI performance.

Coming from a growth rate of 1.2% in 2016, South Africa's economy is expected to grow steadily to 2.6% in 2017 and approximately 3.0% from 2018 to 2020[59] because of an emerging black middle class and implementation of the National Development Plan (NDP). However, its economy is very sensitive for global uncertainties and inward FDI will only increase when South Africa is able to address its challenges related infrastructure, utilities, droughts, crime and labor market.

Next-11

Among the Next-11 countries, a number of countries are expected to grow considerably in the medium-term and, as such, are expected to attract more FDI. This includes Bangladesh (average rate of 6.4% per year from 2016 to 2020), Indonesia (5.3%-5.5% from 2016 to 2020), Mexico (2.8%-3.5% from 2016 to 2020), Philippines (5.8% from 2016 to 2020), South Korea (2.7% from 2016 to 2020), Turkey (3.5% in 2016) and Vietnam (6.7%-6.9% from 2015 to 2017). However, the potential destination for future FDI is very volatile as this is inherently related to reforms to improve the business environment and is thus extremely country-specific. Only in Vietnam is FDI expected to gain further momentum without many reforms.[60]

54 The Economist (2015b)
55 EIU (2015d)
56 EIU (2015e)
57 UNCTAD (2016)
58 EIU (2015f)
59 EIU (2015g)
60 EIU (2015h)

For instance, the anticipated full implementation of structural reforms, which should improve the overall competitiveness of the business environment, is limited in countries like Bangladesh[61], Indonesia[62] and Mexico[63] due to institutional weakness and regulatory constraints. Inefficient public investment in infrastructure is one of the main bottlenecks limiting FDI into the Philippines,[64] while South Korea needs to address it unsuccessful shift away from export-led economic growth and neglected focus on services.[65] Turkey's potential for FDI is very dependent upon Russian sanctions, uncertainty due to domestic political tension, as well as its inefficient judicial system, labor-market rigidities and widespread tax evasion,[66] which Turkey needs to tackle.

Iran is expected to grow but the general business environment (e.g. limited private sector, vested interests, hostility towards foreign companies and weak banking and taxing system) will remain poor and hinder potential inward FDI.[67] Nigeria needs to address its overreliance on the oil sector, its policy uncertainty, import restrictions, fiscal policy and institutional capacity to successfully implement reforms.[68]

Finally, Egypt and Pakistan are the two countries among the Next-11 countries for which the future outlook of FDI remains rather pessimistic. For Egypt, this mainly relates to political instability, terrorism, a weakened tourism sector and its reliance on Europe as export partner,[69] whilst for Pakistan FDI bottlenecks concern a volatile security situation, regulatory uncertainty, weak infrastructure and utility shortages.[70]

GCC

Notwithstanding the recent drop in oil prices, the economies of the GCC region are expected to continue to grow over medium-term, with rates ranging from 1.0-2.0% for Bahrain, Kuwait and Saudi Arabia to 2.1%-3.4% for the UAE. Most countries will maintain a friendly policy towards foreign investment accompanied by a high-quality business environment remain attractive for future FDI (e.g. Bahrain[71], Qatar[72] and the UAE[73]), whilst others will continue to address challenges limiting FDI. For instance, Kuwait recently implemented new FDI and public-private partnership (PPP) laws and have overcome red tape and political opposition to major projects[74]. Government spending non-oil sectors, including support for the construction and manufacturing sectors in Oman[75] and the UAE may offer further, future FDI potential, supported by the recent lifting of sanctions on Iran and the upcoming World Expo 2020 in Dubai.. Similarly, Saudi Arabia will invest in massive infrastructure projects that may have significant FDI spin-off opportunities for the private sector[76].

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61 EIU (2015i)
62 EIU (2015j)
63 EIU (2015k)
64 EIU (2015l)
65 EIU (2015m)
66 EIU (2015n)
67 EIU (2015o)
68 EIU (2015p)
69 EIU (2015q)
70 EIU (2015r)
71 EIU (2015s)
72 EIU (2015t)
73 EIU (2015u)
74 EIU (2015v)
75 EIU (2015w)
76 EIU (2015x)

Chapter 3: Key Trends in Outward Investment from Emerging Economies

Not only has the direction of inward FDI changed over the last couple of years, but so too has the direction of outward FDI. Outward FDI is just as dynamic and reliant upon factors like the changing global economic climate, regional demand and supply and national facilitative or restrictive investment policies. This chapter explores the key regional trends in outward FDI, focusing on emerging and growing economies and the role they play as sources for FDI for Africa ("South-South FDI").

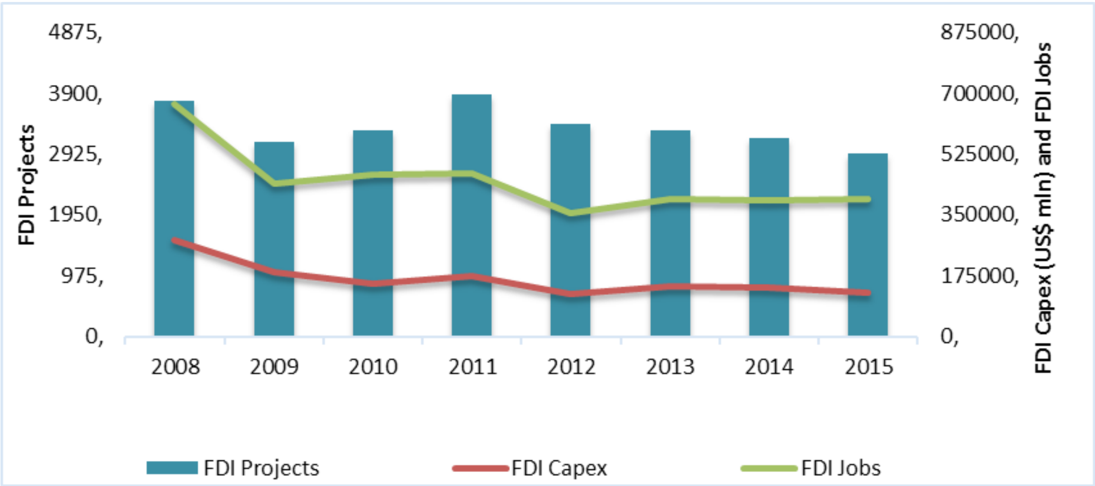
Last year has been a successful year for outward FDI from the BRICS countries, which was the highest number of outward FDI projects recorded for these countries apart from 2011. This Chapter demonstrates that China and India combined represent nearly 80% of all FDI projects sourced from the BRICS countries. China's strong position as source for FDI has come at the expense of all four other BRICS countries. The only exception is that Russian companies accounted for a slightly larger share of outward FDI capex, mainly due to the capital-intensive investment in the coal, oil and natural gas industry. On the opposite, 2015 was a very modest year for FDI originating from the Next-11 countries, as an all-time record low has been registered. Slightly higher values of FDI capex and number FDI jobs generated by companies from Next-11 countries may nuance this modest performance. Outward FDI from the Next-11 countries seems to be primarily dependent upon MNEs from South Korea and, to a lesser extent, from Mexico and Turkey. Just as with inward FDI, 2015 has been a year in which an all-time record low has been registered for outward FDI from the GCC countries. On the contrary, FDI capex from this region increased substantially over 2015. The dominance of the UAE as a source for FDI is stable. However, Saudi Arabia's regional share of outward FDI capex and jobs has increased considerably, mainly due to a rise in outward FDI in the coil, oil, natural gas and energy industries.

Regional

North America

As a source region for FDI, North America has experienced a gradual decline in number of FDI projects, FDI capex and FDI jobs from 2008 onwards. After picking up in 2011, FDI trends dropped again in 2012, particularly for FDI jobs and capex, and remained more or less stable from 2013 onwards, with the number of FDI projects steadily declining. These trends for outward FDI are very similar to North America's inward FDI trends. Over 2015, nearly 3,000 FDI projects originated from North America, generating US$127.2 bln of capex together with nearly 400,000 jobs across the globe.

Figure 20: Outward FDI trends overview for North America, 2008-2015

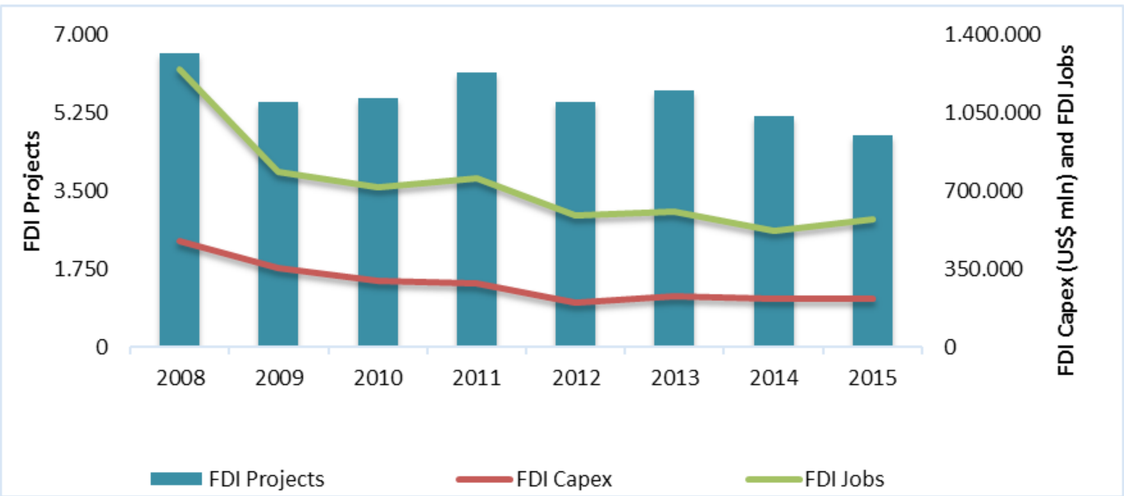


Source: fDi Markets, fDi Intelligence from Financial Times Ltd. Date range: 2008-2015

EU-28

As the engine for global outward FDI, the outward FDI trends for the EU-28 are strikingly similar to the outward FDI trends for North America and EU-28 inward FDI trends. A rather steep decline in outward FDI over 2009 is followed by a gradual increase in number of FDI projects and jobs up to 2011 after which outward FDI dropped again in 2012. The number of FDI projects sourced from the EU-28 countries has gradually declined from 2013 whilst the trend for FDI capex and jobs has remained more or less stable. Companies from the EU-28 undertook more than 4,700 FDI projects over 2015 (all-time low since 2008) worth US$218.5 bln (lowest value apart from 2012), thereby creating over 573,000 new jobs (lowest number apart from 2014).

Figure 21: Outward FDI trends overview for EU-28, 2008-2015



Source: fDi Markets, fDi Intelligence from Financial Times Ltd. Date range: 2008-2015

The domination of the UK, which is the most popular country for FDI into the EU-28, is also visible in terms of source for FDI. UK companies represented 23.7% of the total number of FDI projects sourced from the EU-28 over 2015. However, the domination of the UK is less pronounced as it is followed closely by German companies that represent 21.1% of all FDI sourced from EU-28 member states. France occupies the third rank, representing a share of 13.3%. The Netherlands (6.5%) and Spain (6.2%) complement the top five largest EU-28 FDI sources. It should be noted these figures include intra-EU FDI flows. The trends for FDI capex and FDI jobs created by companies from within the EU-28 are similar though German companies created every one out of four FDI jobs sourced from within the EU-28 (i.e. 25.4% of all FDI jobs sourced from the EU-28), as opposed to one out of five FDI jobs created by UK companies (i.e. 20.9% of all FDI jobs sourced from the EU-28).

Comparing the EU-28 outward FDI statistics of 2015 with the time window spanning from 2008 to 2014 reveals that the UK has indeed further strengthened its dominance across all three ranks (e.g. FDI projects, FDI capex and FDI jobs). The same applies to Luxembourg, which as noted a particularly strong increase in its share in FDI capex sourced from the country over 2015. French companies represented a larger share of FDI projects and FDI jobs over 2015 whilst companies from Denmark accounted for a larger share of FDI projects and FDI capex compared to previous years.

Table 8: Top-5 and bottom-5 change in EU-28 share over 2015 compared to 2008-2014

FDI Projects			FDI Capex			FDI Jobs	
Luxembourg	+1.8%		Luxembourg	+3.0%		France	+4.4%
France	+1.1%		Denmark	+2.5%		Germany	+2.8%
UK	+0.6%		UK	+2.3%		UK	+2.7%
Belgium	+0.4%		Poland	+0.5%		Luxembourg	+1.1%
Denmark	+0.2%		Ireland	+0.4%		Romania	+0.4%
Italy	-0.3%		Greece	-0.9%		Portugal	-0.7%
Sweden	-0.4%		Portugal	-0.9%		Sweden	-1.5%
Ireland	-0.8%		Germany	-1.3%		Austria	-1.6%
Austria	-0.9%		Sweden	-1.5%		Italy	-2.2%
Spain	-1.4%		Netherlands	-2.7%		Spain	-3.4%

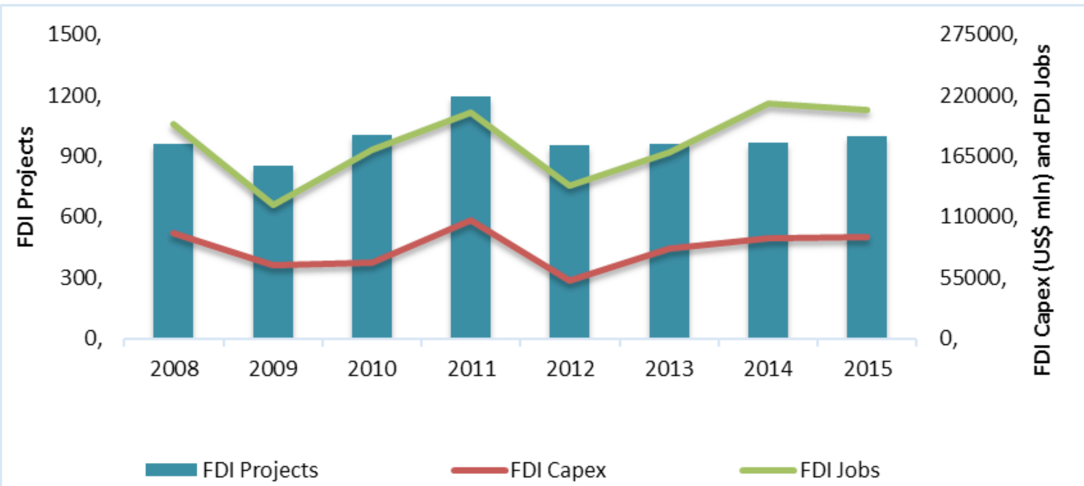
Source: fDi Markets, fDi Intelligence from Financial Times Ltd. Date range: 2008-2015

On the contrary, a number of southern EU-28 member states seem to have lost terrain on their shares of EU-28 outward FDI. This is particularly the case for Italy, Spain and Portugal, and, to a lesser extent, Greece. However, a number of central and northern European countries have also experienced declining shares of EU-28 outward FDI. This is especially the case for Sweden, whose shares for FDI projects, FDI capex and FDI jobs over 2015 declined compared to its shares from 2008 to 2014. To a lesser extent, Austria has also been experienced smaller shares across two out of the three ranks (i.e. FDI projects and FDI jobs). Companies from Germany and The Netherlands invested disproportionally less through FDI compared to 2008 to 2014, with shares reducing with 1.3% and 1.5%, respectively.

BRICS

As opposed to 2,000 FDI projects the BRICS countries collectively attracted over 2015, a total of 1,000 FDI projects originated from Brazil, Russia, India, China and South Africa over 2015. This is the highest number of outward FDI projects originating from the BRICS countries apart from 2011. FDI projects, FDI capex and FDI jobs sourced from the BRICS countries follow a more or less similar pattern, with a gradual increase from 2009 onwards to a peak in 2011. This peak in 2011 is followed by a sharp dip in 2012, after which FDI capex and FDI jobs in particular have picked up again. In fact, the number of FDI jobs created by BRICS companies over 2015 equals 207,000, which is slightly lower than 2014 but a higher number than any other year and above the peak of 2011. Outward BRICS countries FDI represented a capex of US$91.8 bln over 2015, still considerably lower than the US$106.5 bln in 2011 but a clear indication of the positive trend over 2015.

Figure 22: Outward FDI trends overview for BRICS, 2008-2015



Source: fDi Markets, fDi Intelligence from Financial Times Ltd. Date range: 2008-2015

Among the BRICS countries, China remains the largest source for outward FDI. Over 2015, 486 FDI projects originated from China (or 48.6% of all BRICS outward FDI projects), which represented a total capex value of US$59.0 bln (or 64.2% of all BRICS outward FDI capex) and created over 136,000 new jobs (or 65.7% of all BRICS outward FDI jobs).

India follows China as main source of outward FDI. A total of 302 (or 30.2%) outward FDI projects have been recorded for India over 2015. Russia, South Africa and Brazil follow with considerably lower numbers (i.e. 92 for Russia, 66 for South Africa and 54 for Brazil). Combined, China and India represent nearly 80% of all FDI projects sourced from the BRICS countries.

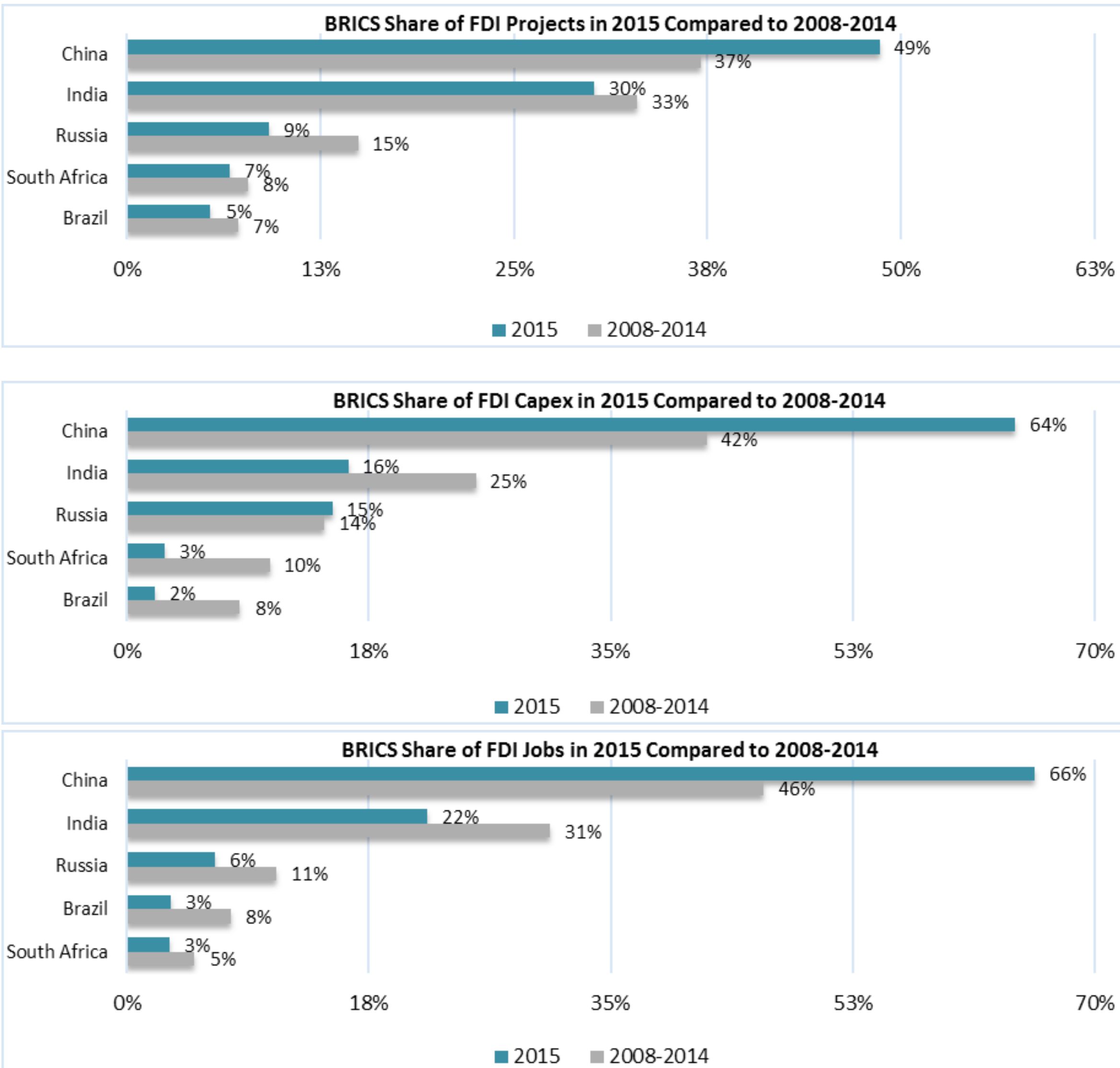
In terms of sources for FDI capex, China and India are joined by Russia. Indian companies accounted for US$14.7 bln (or 16.0%) worth of FDI projects over 2015 whereas Russian companies invested for a total of US$13.7 bln (or 14.9%) in FDI projects. This can partly explained by the fact Russian companies invested heavily in the capital-intensive coal, oil and natural gas industry in Uganda and Uzbekistan. Companies from South Africa and Brazil only represented minimal FDI capex shares, with US2.5 bln (or 2.7%) and US$1.9 bln (or 2.0%), respectively.

Indian companies created over 45,000 FDI jobs (or 21.7%) abroad over 2015, followed by Russia with more than 13,000 FDI jobs (or 6.4%). Again, South Africa and Brazil are more or less similar with companies from each accounting for approximately 2,500 FDI jobs (or 3.1%) over 2015.

Comparing the outward FDI shares of the five BRICS countries over 2015 vis-à-vis the time frame spanning from 2008 to 2014 indicates China s enhanced dominance as source of FDI across all ranks. Its dominance as source for FDI across the BRICS countries is particularly prominent for capex and jobs, representing 64.3% and 65.7%, respectively. Its increase over 2015 has been spectacular, with an increase of 22.3% of its share of BRICS countries outward FDI capex and 19.6% of its share of FDI jobs created by companies originating from the BRICS countries. Chinese outward FDI is strong in the communications industry, electronic components sector, financial services, metals, real estate and transportation industry. Even though in absolute terms, most of the Chinese outward FDI projects are directed towards the US, FDI capex focus is more towards Asia. Large capital-intensive FDI projects have primarily been located in India, Indonesia, Pakistan, Malaysia, Kazakhstan, Iran, Thailand and Kirgizstan, in addition to non-Asian markets such as Australia, Russia, Brazil and Mexico.

China's strong emergence as source for FDI has come at the expense of all four other BRICS countries. The only exception is the fact that Russian companies accounted for a slightly larger share of outward FDI capex in 2015 (from 14.3% over 2008 to 2014 to 14.9% in 2015), due mainly to the previously mentioned capital-intensive investment in the coal, oil and natural gas industry.

Figure 23: Change in total BRICS share over 2015 compared to 2008-2014



Source: fDi Markets, fDi Intelligence from Financial Times Ltd. Date range: 2008-2015

BRICS Outward FDI into Africa

Chinese Investment in Africa

The history of Chinese FDI in Africa goes back at least to the late 1960s, when China financed and built the Tazara Railway, a 1,860 km line connecting the Zambian capital Lusaka to the port of Dar es Salaam in Tanzania. The project, started in 1967 and completed in 1975, was financed with an interest-free, 30-year loan of approximately US$415.0 mln, divided between the Tanzanian and Zambian governments.[77] The railway was built by 50,000 Chinese and 60,000 African workers and supplied with Chinese rolling stock. Tazara never fulfilled its promise, and by 2014 was carrying only 200,000 MT of freight annually, only 4% of the 5 mln MT capacity put in place by the Chinese.[78]

77 Monson, J. (2009)

78 Mills, G. (2015)

The common narrative of Chinese FDI in Africa is that it is a "resource grab," intended to secure long-term supplies of petroleum and minerals to feed the needs of a rapidly growing economy, and that it is concentrated in countries with a poor record on human rights. There is, additionally, considerable and, often, alarmist and exaggerated reporting on China's FDI in Africa, which could lead to the conclusion that China is pursuing a single-minded strategy of African expansion and eclipsing other sources of investment. The truth, however, is quite different.

Africa absorbs less than 3% of China's outward FDI, and not a single African country ranks in the top 10 destination countries for Chinese FDI, as measured either by 2014 flows or stocks. And although Chinese companies have invested significantly in oil production in countries like Sudan and Angola, extractive industries have captured less than 30% of China's FDI in Africa from 2003 to 2014, as shown in Table 9.

Table 9: Chinese FDI into Africa, 2003-2014

Business Activity	FDI Projects	FDI Capex (US$ mln)		FDI Jobs	
	Total	Total	Average	Total	Average
Manufacturing	77	$39,343	$510	13,284	172.5
Sales, marketing & support	23	$350	$15	149	6.5
Extraction	14	$14,897	$1,064	8,726	623.3
Education & training	8	$606	$75	73	9.1
Business services	8	$142	$17	84	10.5
Construction	4	$5,661	$1,415	4,650	1,162.4
Electricity	4	$262	$66	1,351	337.8
Retail	4	$154	$38	32	8
ICT & Internet infrastructure	4	$1,290	$322	1.850	462.5
Logistics, distribution, and transportation	3	$400	$133	147	48.9
Other business activities	7	$1,094	$156	150	21.4
Total	156	$64,201	$411	30,495	195.5

Source: fDi Markets, fDi Intelligence from Financial Times Ltd. Date range: 2015

Equally telling is the EIU's China Going Global Index, which ranks the attractiveness of different countries to outward Chinese FDI, using indicators of both opportunity and risk, as shown in Table 10. These top-line indicators are further broken down into about 70 sub-indicators. Morocco, at 46th of 67 countries rated, is the top-scoring African country in the 2015 ranking, followed by Tunisia (49th) and South Africa (50th).

Table 10: EIU's China Going Global Investment Index structure and weighting assignment

Opportunity	Weights (%)
Market size	17
Natural resources	18
Intellectual property	15
Export manufacturing	17
Risk	**Weights (%)**
Domestic political and regulatory risk	12
International political and regulatory risk	4
Cultural proximity	11
Operational risk	2
Credit risk	5

Source: The Economist (2015b)

The common narrative of China's push into extractive industries in Africa is accompanied by a similar perception of Chinese investment in African agriculture.

One reason for this, as can also be seen in the story of GCC investment into African agriculture, is that the size and number of announced deals differ greatly from the size and number of investments that actually take place. According to data compiled by the China Africa Research Initiative at Johns Hopkins University, 53 Chinese large-scale agricultural investment deals in Africa were announced between 2000 and 2014, covering a combined total area of 6,009,160 hectares, only 223,251 hectares were actually acquired by investors.[79] If the experience of GCC investors in African agriculture is any guide, it is likely that a substantial fraction of the acquired land was never put into production.

Also, as a recent assessment of Chinese investments in agriculture in Angola points out, "These projects are not intended to solve China's food security problem, but are instead aimed at improving Angola's agricultural capacity and food production. This… cooperation challenges the common perception of an oil-centric relationship... Many believe that there is a Chinese scramble for African land to establish agricultural export businesses driven by the need to meet their domestic demand for food. However, China's current agricultural cooperation with Angola is mainly centered on construction projects under contract to the Angolan government. Land has neither been sold nor leased to China, but rather is still fully owned by Angola, and every grain produced is handed over to the Angolan Ministry of Agriculture…China has no intention of producing food in Angola and exporting it to China. Rather, China recognizes that it will reap indirect benefits from agricultural cooperation in Angola…If food security in Africa is guaranteed, international food prices will be stable and this benefits China's food security indirectly."[80]

China's investments in Africa started as a political project to win influence among non-aligned countries like Tanzania and Zambia, at least partly with the aim of reclaiming the U.N. Security Council seat then held by Taiwan. Given Chinese state backing for many Chinese investments in Africa, a political motive cannot be ignored. But the picture of Chinese investment in Africa is considerably more nuanced than its common portrayal as a resource-grab. China's financial backing for FDI is no doubt a form of "soft power" projection as well as a form of state support for Chinese enterprises, but at the same time the investments themselves, whether undertaken by private or state-owned companies, appear increasingly to be conceived and carried out as profit-making projects.

79 China-Africa Research Initiative (2015)

80 Zhou, J. (2015)

Indian Companies' African Ventures

India's approach to FDI in Africa is similar in many respects to that of China, with a variety of Indian government entities providing support to private Indian companies for a variety of economic and political motives. In 2011, at the second India-Africa summit, held in Addis Ababa, Ethiopia, India pledged US$5.0 bln to help African countries meet the Millennium Development Goals (MDGs). On that occasion, India's Trade Minister, Anand Sharma, said, "Economic and development cooperation between India and Africa is a cornerstone of their new age partnership."[81] The exact meaning of that statement is unclear, but in concrete terms India's US$5.0 bln commitment included US$700.0 mln to build institutions and establish training programs, and US$300.0 mln to develop the Ethiopia-Djibouti Railway. Other plans included an India-Africa virtual university and more than 22,000 higher education scholarships for African students. India also agreed to contribute US$2.0 mln to the African Union Mission in Somalia.

As is the case with China, the Indian Government's approach to Africa blurs the lines between development assistance and commercial investment, often harnessing and supporting private investment to achieve political and development goals. India, a net oil importer, has substantially increased its imports from Africa, whilst India's diamond-cutting industry, the world's largest, is a large importer of stones from South Africa, Botswana, Namibia, and Zimbabwe. At the same time, large Indian multinationals, including Apollo Tyres, ArcelorMittal, Bharti Enterprises, Essar Group, Godrej Group, Mahindra Group, Reliance Industries and Tata Group, have made large investments in Africa, mainly in pursuit of opportunities related to growth in African consumer markets. As noted above, Indian groups have also played an important role in agricultural investment in Ethiopia, as well as in other countries in Africa.

The Indian Government has used lines of credit, typically accompanied by sovereign guarantees, as a principal tool to support FDI in Africa by Indian companies.

In a bid to expand its economic presence in Africa, India in 2004 launched the "Techno-Economic Approach for Africa–India Movement" (TEAM–9), targeting with eight energy- and resource-rich West African countries – Burkina Faso, Chad, Cote D'Ivoire, Equatorial Guinea, Ghana, Guinea Bissau, Mali, and Senegal – with a US$500.0 mln line of credit offered by the Indian Exim Bank to the governments of these countries for industrial development purposes. In Chad, for example, the Indian credit line funded a tractor assembly plant, a steel rebar plant, a bicycle assembly operation, a fruit juice factory, and the rehabilitation of the national cotton-spinning company SOTCHAFIL.

In each of these instances, India provided long-term, low-interest sovereign loans, but this financing came with conditions requiring that Indian firms carry out the technical and financial feasibility studies, and the factories be built and equipped by Indian contractors and machinery suppliers, with Indian firms contracted to provide technical and management assistance to these enterprises.[82]

India substantially upped the ante on its government assistance to Indian investors in Africa when, at the October 2015 India-Africa Forum Summit, it announced a new US$10.0 bln Exim Bank line of credit for Africa over the next five years, following the US$7.4 bln line of credit and US$1.2 bln in grants committed at the 2008 summit. The line of credit requires African governments to apply for soft loans at an interest rate of one to two percent, on condition that 75% of all related contracts are awarded to Indian firms. Power and transport projects have so far accounted for 29% and 14%, respectively, of funds disbursed, mainly through PPPs between Indian contractors and African governments.83

Indian FDI funded by the Exim Bank line of credit is highly concentrated among a small number of firms and countries. Angelique International, a large EPC contractor with annual turnover of more than US$300.0 mln, is the largest beneficiary, with US$1.1 bln of Exim-funded turnkey projects in power, water, irrigation and agriculture, and industry in eight African countries. Other big beneficiaries of the program include Overseas Infrastructure Alliance, another EPC contractor, whose projects include two large-scale sugar projects (plantations, refinery, ethanol) in Ethiopia, with total investment of more

81 Bhowmick, N. (2011)
82 Krakoff, C. (2015)
83 Harshe, R. (2015)

than US$350.0 mln, and electricity projects in Mozambique, DRC, Rwanda, and Burkina Faso; and Jaguar Overseas, an EPC contractor with US$150 mln in annual turnover and active in agriculture and irrigation, agricultural machinery, power, renewable energy, industrial process plants (e.g., cement), transport, water and sanitation, and commercial and industrial property development.

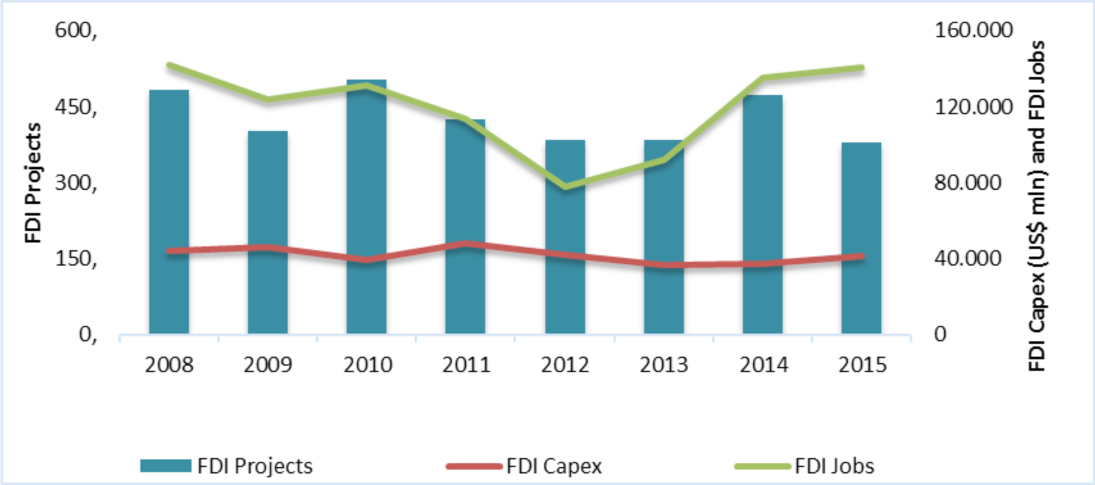
Though it remains smaller than China's investments, India's stock of FDI in Africa now stands at about US$32.4 bln, according to some estimates.[84] But this, and other figures, can be misleading. According to some estimates, India's stock of FDI in Africa is as much as US$50.0 bln, which if true would make it a bigger investor than China, but around 90% of that amount was invested in Mauritius, a tax haven with only 1.2 mln people. Mauritius is also one of the biggest foreign investors in India, and the most plausible explanation of this apparent anomaly is that Indian companies are avoiding taxes on their Indian investments by "round-tripping" profits to Mauritius and back to India again.

Many Indian investments in Africa have struggled. "The continent is littered with examples of ambitious yet ill-prepared Indian companies that have seen their investments go sour. The best known example is Bangalore-based Karuturi Global that sought to become the world's largest food producer by acquiring 100,000 hectares of land in Ethiopia, but ended up on the brink of bankruptcy. More recently, Essar has struggled to close out a US$750 mln deal to acquire and refurbish the Zimbabwe Iron and Steel Company, a bankrupt state-owned company, while Airtel has sold 8,300 mobile towers across Africa in a bid to reduce its debt burden [taken on when Bharti in 2010 paid US$10.7 bln to acquire Zain Telecom's assets and operations in 15 African countries, mostly in debt and at a price that represented a substantial premium over Bharti's own enterprise value to free cash flow at the time and over that of MTN, Zain's closest peer on the continent]."[85]

Next-11

Combined, 379 FDI projects originated from the Next-11 countries over 2015, which is an all-time record low since 2008 and a considerable drop from 2014 (nearly a difference of 100 FDI projects). Remarkable is the fact that the capex value of these FDI projects has increased steadily from 2012, up to US$41.2 bln in 2015. This implies the average capex value of a FDI project has risen considerably. The same is true for FDI jobs that have been created by companies originating from Next-11 companies. Only in 2008 did companies from Next-11 countries create more jobs abroad than in 2015: 142,200 in 2008 against 140,400 in 2015.

Figure 24: Outward FDI trends overview for Next-11 countries, 2008-2015



Source: fDi Markets, fDi Intelligence from Financial Times Ltd. Date range: 2008-2015

84 The Economic Times (2015b)

85 Sethi, A. (2015)

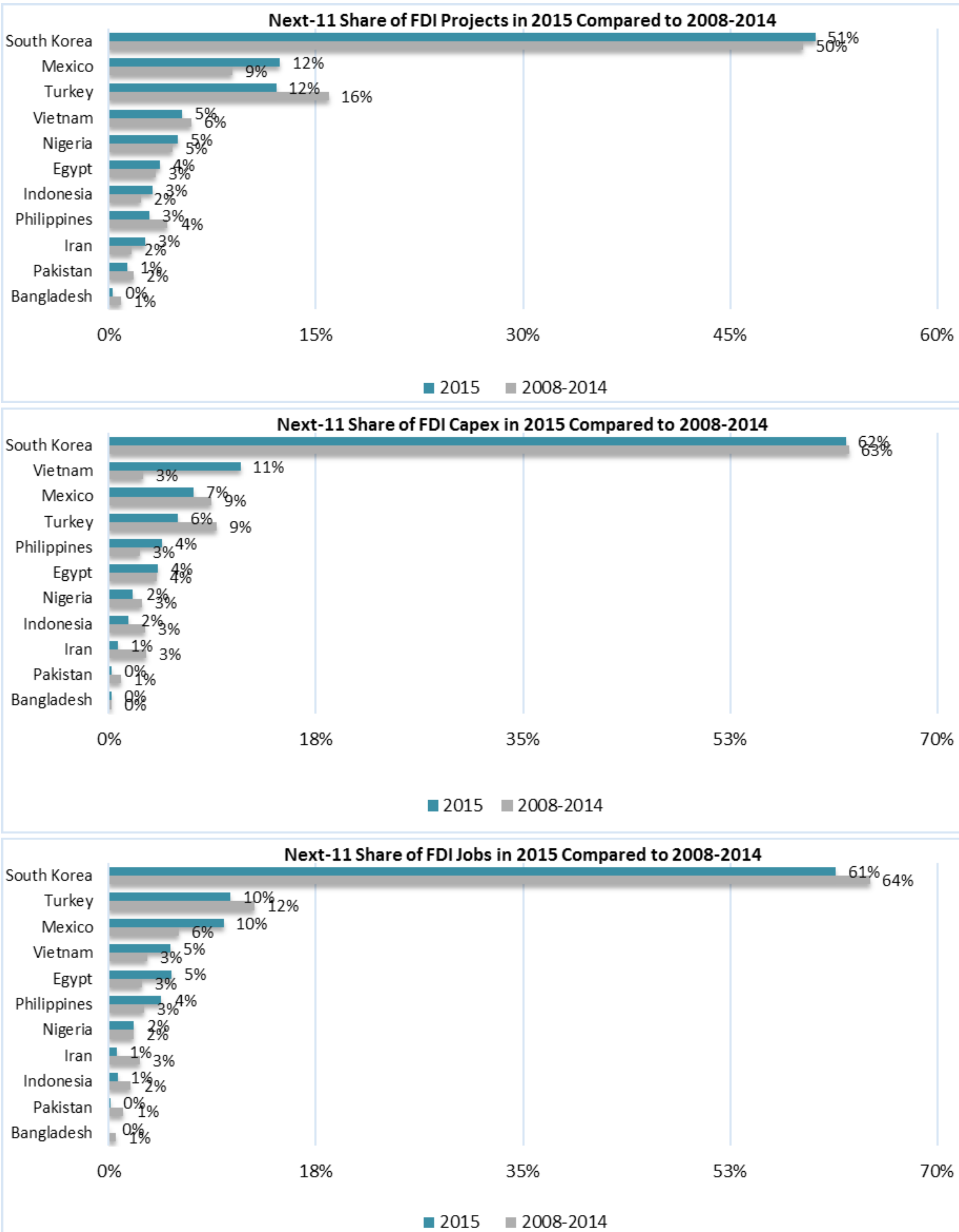
In terms of source for outward FDI projects, the Next-11 countries can be grouped into three clusters. The first cluster consists exclusively of South Korea, which was the source for nearly 200 FDI projects (or half of all FDI projects originating from Next-11 countries) over 2015. These FDI projects accounted for a total capex value of US$25.7 bln (or 62.3% of all FDI capex originating from Next-11 countries) and created over 86,300 new jobs (or 61.5% of all FDI jobs created by companies from Next-11 countries).

Despite Turkey's decline in its share of number of FDI projects, particularly in the financial services, hotels and tourism industry and metal sector, Mexico and Turkey represent the second cluster, which have functioned as sources for 47 (or 12.4%) and 46 (or 12.1%) FDI projects in 2015, respectively. Mexico's increased share can be attributed to an increase in the number of FDI projects sourced from Mexico in the food, tobacco and plastics industries into other countries in Latin America and the US. All other remaining countries can be grouped as the third cluster, ranging from 20 (or 5.3%) FDI projects from Vietnam down to just one (or 0.3%) FDI project from Bangladesh.

The picture for FDI capex generated by companies originating from Next-11 countries is – apart from South Korea's dominance – less clear. In fact, Mexico's and Turkey's shares for outward FDI capex among the Next-11 countries dropped in 2015 and are now more or less similar to the other Next-11 countries apart from South Korea and Vietnam. In Turkey, this can be related to declining outward FDI capex in the coal, oil and natural gas industry, hotel and tourism industry, metal sector and textiles. Vietnam has overtaken both Mexico and Turkey with a strong increase in its share of outward FDI capex due two large capital-intensive FDI projects in the food and tobacco industry in Russia. On the other side of the spectrum, Pakistan and Bangladesh remain very minor sources for outward FDI capex.

Finally, looking at the jobs created by companies located in Next-11 countries, a same pattern as for the number of FDI projects applies, with South Korea clearly outperforming all other Next-11 countries but followed, albeit on an enormous distance, by Turkey and Mexico, which each accounted for one out of ten jobs created by companies from Next-11 countries over 2015. In fact, Mexico's share of FDI jobs increased over 2015 from 5.9% to 9.7%, thereby equaling Turkey's share, which has experienced a decline in its Next-11 share over 2015. Again, this can be traced back to declining outward FDI from Turkey, particularly in the hotel and tourism industry.

Figure 25: Change in total Next-11 countries share over 2015 compared to 2008-2014



Source: fDi Markets, fDi Intelligence from Financial Times Ltd. Date range: 2008-2015

Next-11 Outward FDI into Africa

From 2003 onwards, a total of 401 FDI projects have been recorded from Next-11 countries into Africa. These 401 FDI projects generated US$41.72 bln of FDI capex and generated employment by creating more than 133,500 new jobs. Large part of this consists of intra-regional FDI flows from Nigeria and Egypt to other African countries. Combined, Nigeria and Egypt make up for 215 FDI projects (or 53.6% of all Next-11 FDI projects into Africa). Particularly Ghana but also Ivory Coast, Sierra Leone, South Africa, Uganda and direct neighbors such as Benin and Cameroon are the prime destination for FDI from Nigeria, which is mostly undertaken in the financial services industry. The focus of Egyptian companies, which together generated US$7.87 bln worth of FDI and over 20,800 FDI jobs, is mainly aimed at undertaking FDI in the building and construction materials sector, communications industry and financial services in Algeria, Kenya, Libya and Sudan.

South Korea functions as one of the major source regions among the Next-11 countries for FDI into Africa with 84 FDI projects. These projects generated US$8.74 bln of FDI capex, which equals 20.9% of all FDI capex from Next-11 countries into Africa. Among the Next-11 countries, South Korea is thus the engine of FDI capital into Africa. As the only major source region which is not directly located in or in the proximity of Africa, most of the FDI sourced from South Korea has been directed to Algeria, Egypt, Kenya, Nigeria and South Africa in the automotive and electronic components industries.

Turkey, as a country with proximity to northern Africa and close ties in the Middle East and North Africa (MENA) region, comes in at a fourth rank in terms of absolute number of FDI projects, functioning as source country for northern Africa (e.g. Algeria, Egypt, Ethiopia and Libya). Concerning the creation of new jobs, Turkish companies created nearly 43,400 new jobs (or 32.5%) across Africa, thereby functioning as the most important source for FDI jobs ahead of South Korea (19.5%), Egypt (15.6%) and Nigeria (13.9%).

The remaining Next-11 countries Iran, Vietnam, Indonesia, Philippines, Pakistan, Mexico and Bangladesh play a less pronounced role as source country for FDI into Africa. Only exception is Vietnam, as the 11 FDI projects that originated from Vietnam, which just represent 2.7% of all Next-11 countries FDI projects into Africa. Vietnam generated US$5.8 bln worth of FDI capex, which equals a share of 14.0% of all Next-11 countries FDI capex into Africa. Algeria and Morocco were the main targets of Vietnams' FDI projects focused on the coal, oil and natural gas industry and chemicals industry.

Table 11: FDI from Next-11 Countries into Africa, 2003-2015 (all source countries)

Source Country	FDI Projects		FDI Capex (US$ mln)		FDI Jobs	
	Abs.	Rel.	Abs.	Rel.	Abs.	Rel.
Nigeria	152	37.9%	$8,262	19.8%	18,590	13.9%
South Korea	84	20.9%	$8,739	20.9%	26,023	19.5%
Egypt	63	15.7%	$7,871	18.9%	20,839	15.6%
Turkey	53	13.2%	$5,660	13.6%	43,384	32.5%
Iran	12	3.0%	$1,990	4.8%	7,379	5.5%
Vietnam	11	2.7%	$5,823	14.0%	7,412	5.5%
Indonesia	8	2.0%	$1,685	4.0%	2,468	1.8%
Philippines	8	2.0%	$758	1.8%	1,041	0.8%
Pakistan	7	1.7%	$672	1.6%	2,711	2.0%
Mexico	2	0.5%	$224	0.5%	711	0.5%
Bangladesh	1	0.2%	$38	0.1%	3,000	2.2%
Total	401	100.0%	$41,722	100.0%	133,558	100.0%

Source: fDi Markets, fDi Intelligence from Financial Times Ltd. Date range: 2003-2015

Ghana attracted the largest share of number of FDI projects from the Next-11 countries from 2003 up to 2015. A total of 62 FDI projects have been located in Ghana, accounting for a share of 15.5% of all FDI projects from the Next-11 countries into Africa. Ghana has mainly attracted small-sized FDI projects in the financial services, which is reflected by the relatively low values of FDI capex (US$1.49 bln or 3.6%) and FDI jobs (4,157 or 3.1%).

Egypt – also one of the major Next-11 source countries – comes in at a second rank in terms of number of FDI projects. The 30 FDI projects (or 7.5% of all) Egypt attracted from Next-11 countries created 17,165 new jobs (or 12.9%) and generated US$3.72 bln (or 8.9%) worth of FDI capex. Egypt has attracted FDI from Next-11 countries in a diverse range of industries but concentrated in the automotive, consumer electronics and textiles industries.

The successful realization of FDI projects in Algeria in the coal, oil and natural gas industry (from Vietnam) and chemicals industry (from Egypt) is reflected by the large amount of FDI capex the country has attracted from the Next-11 countries. Its 29 FDI projects attracted US$11.23 (or 26.9%) worth of FDI projects.

Ethiopia seems to have been most successful in attracting labor-intensive FDI from the Next-11 countries as over 36,700 new jobs (or 27.5%) have been created in the country, the largest amount in any of the African countries. Textiles manufacturing and producing building and construction materials seem to be the main job-creating FDI industries.

Table 12: FDI from Next-11 Countries into Africa, 2003-2015 (top-10 destination countries)

Industry	FDI Projects		FDI Capex (US$ mln)		FDI Jobs	
	Abs.	Rel.	Abs.	Rel.	Abs.	Rel.
Ghana	62	15.5%	$1,487	3.6%	4,157	3.1%
Egypt	30	7.5%	$3,722	8.9%	17,165	12.9%
Algeria	29	7.2%	$11,225	26.9%	17,777	13.3%
Kenya	29	7.2%	$875	2.1%	5,339	4.0%
South Africa	23	5.7%	$1,071	2.6%	8,412	6.3%
Ethiopia	22	5.5%	$2,050	4.9%	36,763	27.5%
Nigeria	21	5.2%	$3,553	8.5%	4,364	3.3%
Libya	15	3.7%	$1,002	2.4%	2,436	1.8%
Sudan	14	3.5%	$2,534	6.1%	7,329	5.5%
Senegal	13	3.2%	$2,098	5.0%	3,523	2.6%
Other Destination Countries	205	51.1%	$13,592	32.6%	30,450	22.8%
Total	401	100.0%	$41,722	100.0%	133,558	100.0%

Source: fDi Markets, fDi Intelligence from Financial Times Ltd. Date range: 2003-2015

The financial services industry is the most important industry from which Africa has attracted FDI. Ghana, by far, followed by Kenya, Sierra Leone and Uganda, functioned as a key destination for these FDI projects. Despite having nearly one out of three FDI projects from the Next-11 countries into Africa in this industry, this industry has attracted only US$1.43 bln (or 3.4% of all industries) worth of FDI capex and 3,550 new jobs (or 2.7% of all industries). The building and construction materials sector, despite its smaller volume in terms of FDI projects (44 or 11.0% of all industries), has generated a considerably larger economic impact. This is through US$8.20 bln (or 19.7%) of FDI capex and over 16,600 (or 12.5%) new jobs, mainly in Algeria, Ethiopia, Senegal, Kenya, Sudan and South Africa.

Not entirely surprising due to its capital-intensive nature, the coal, oil and natural gas industry has generated the largest amount of FDI capex, equaling US$11.59 bln (or 27.8% of all industries). Algeria, Nigeria, Rwanda, Senegal and Sudan attracted most of this FDI capex. Textiles, characterized as a labor-intensive industry, on the other hand, accounted for more than 39,000 new jobs (or 29.3% of all industries) despite the relatively limited number of 16 FDI projects (or 4.0% of all industries). Ethiopia and Egypt have attracted most of these FDI projects in the textiles industry.

Table 13: FDI from Next-11 Countries into Africa, 2003-2015 (top-10 industries)

Industry	FDI Projects		FDI Capex (US$ mln)		FDI Jobs	
	Abs.	Rel.	Abs.	Rel.	Abs.	Rel.
Financial Services	115	28.7%	$1,433	3.4%	3,550	2.7%
Building & Construction Materials	44	11.0%	$8,203	19.7%	16,634	12.5%
Consumer Electronics	34	8.5%	$1,842	4.4%	12,177	9.1%
Communications	29	7.2%	$2,654	6.4%	2,354	1.8%
Automotive OEM	18	4.5%	$1,268	3.0%	7,105	5.3%
Coal, Oil and Natural Gas	18	4.5%	$11,592	27.8%	4,024	3.0%
Metals	18	4.5%	$3,417	8.2%	10,767	8.1%
Textiles	16	4.0%	$2,259	5.4%	39,068	29.3%
Transportation	14	3.5%	$427	1.0%	721	0.5%
Food & Tobacco	13	3.2%	$406	1.0%	4,302	3.2%
Other Industries	82	20.4%	8,221	19.7%	32,856	24.6%
Total	401	100.0%	$41,722	100.0%	133,558	100.0%

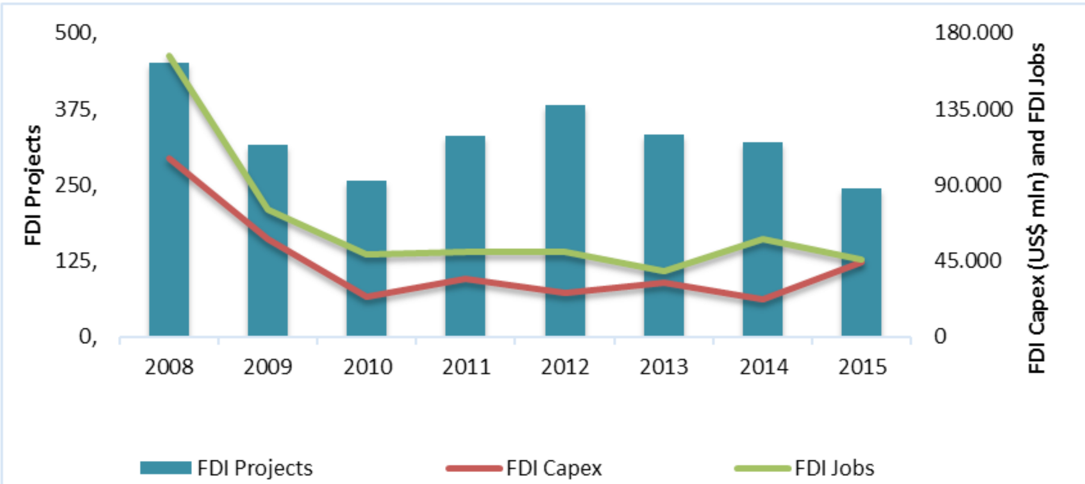
Source: fDi Markets, fDi Intelligence from Financial Times Ltd. Date range: 2003-2015

GCC

The trend of outward FDI from the GCC region is more or less similar to that of North America and the EU-28 with one notable exception. It seems there is a delay of one year in terms of volume of outward FDI between North America and the EU-28 on the one hand and the GCC region on the other hand. Not only did outward FDI trends from North America and EU-28 increase again in 2010, the outward FDI trend from the GCC countries only caught up again in 2011 with a peak in 2012. Following this pattern, outward FDI from North America and the EU-28 dipped again in 2012 followed by a minor increase in 2013. For FDI sourced from the GCC region, 2013 is a year in which FDI figures declined again followed by 2014 as a more or less stable year.

Over 2015, the absolute volume of FDI projects sourced from the GCC countries has gone down to an all-time record low of 244 FDI projects though FDI capex increased substantially to US$44.5 bln. Jobs created by FDI projects originating from the GCC region dropped to nearly 46,000, the lowest number of FDI jobs apart from 2013.

Figure 26: Outward FDI trends overview for GCC region, 2008-2015

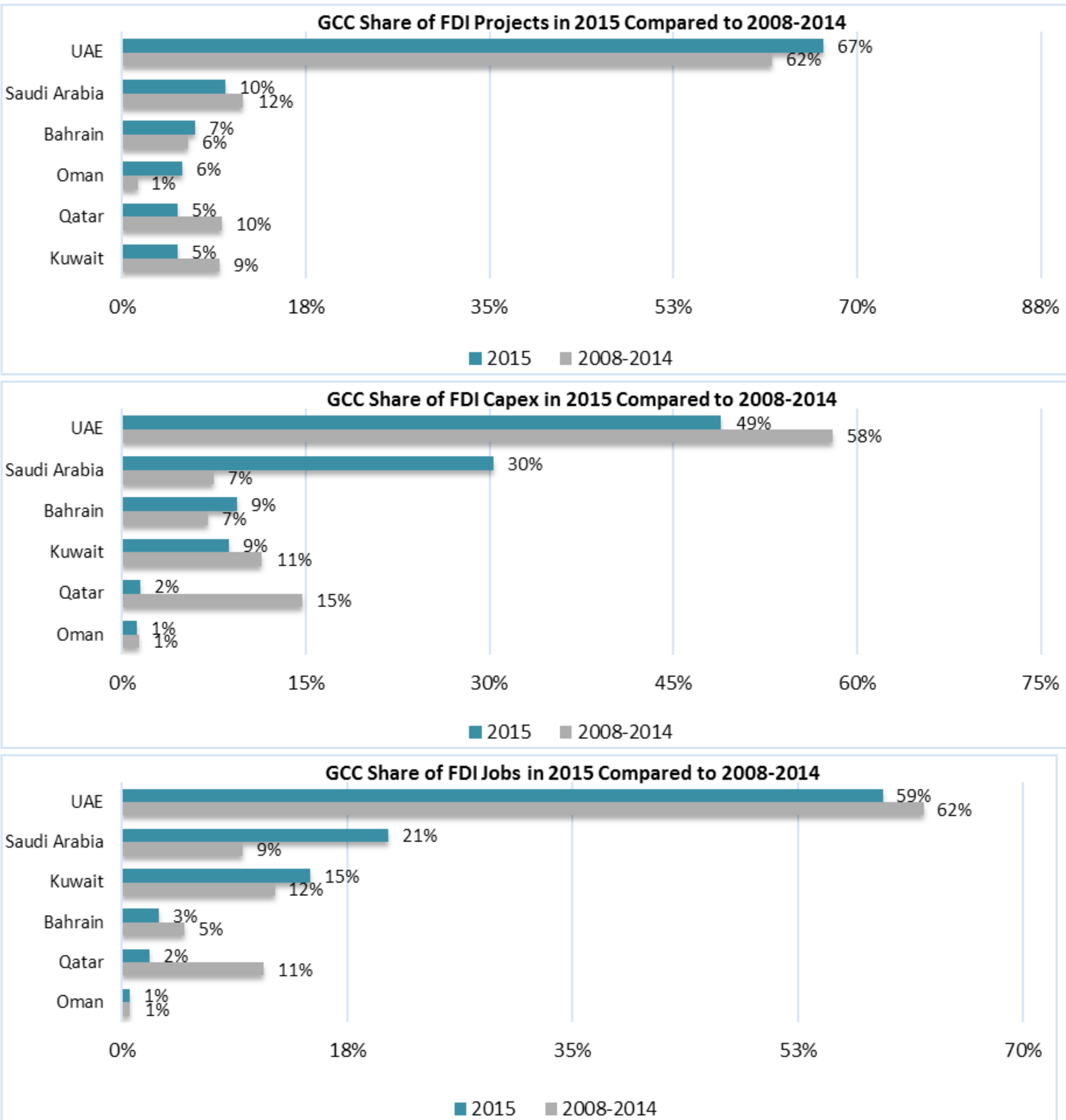


Source: fDi Markets, fDi Intelligence from Financial Times Ltd. Date range: 2008-2015

The dominance of the UAE as source for FDI, also the GCC region's most preferred destination for inward FDI, is stable. A total of 163 FDI projects (or 66.8% of all GCC outward FDI projects) have been sourced from the UAE over 2015, equaling a total capex value of US$21.8 bln (or 48.9% of the GCC total), thereby creating more than 27,000 FDI jobs (or 59.1% of the GCC total).

Over 2015, it has furthered strengthened its position in terms of absolute number of outward FDI projects (from 61.9% to 66.8% of all FDI projects sourced from the GCC region). On the other hand, the UAE's regional shares of outward FDI capex and FDI jobs decreased with 9.1% and 3.2%, respectively. This can partly be attributed to a strong increase in Saudi Arabia's outward FDI capex in the coal, oil and natural gas industries as well as in alternative and renewable energy in FDI projects in Indonesia, South Korea, the UAE and South Africa. The projects in Indonesia and South Korea generated a considerable amount of new jobs, which adds to the strong performance of Saudi Arabia in terms of FDI jobs over 2015. Finally, Qatar has lost terrain on across all three ranks (i.e. FDI projects, FDI capex and FDI jobs).

Figure 27: Change in total GCC region share over 2015 compared to 2008-2014



Source: fDi Markets, fDi Intelligence from Financial Times Ltd. Date range: 2008-2015

GCC Outward FDI into Africa

Most investment from GCC countries in Africa's non-resource sectors has gone into East Africa, for reasons of proximity and historical ties, targeting commercial real estate (shopping centers) retail, agriculture, automotive, banking, and tourism. The EIU highlights the importance of improved transport connections between the Gulf and Africa, especially East Africa, with Emirates, Etihad, Qatar Airways, Kenya Airways, Ethiopian Airlines, and Turkish Airlines offering daily direct flights or efficient connections between multiple East African and Gulf destinations.

GCC firms made direct investments estimated at US$10b into Sub-Saharan Africa from 2005 through 2014, and an additional US$2.7 bln in the first half of 2015. These investments include co-investment with Gulf-based private equity funds such as

Abraaj, minority investments or outright acquisitions, and some greenfield investments, especially in tourism and real estate. Abraaj, one of the largest Gulf investors in Africa, closed its third Africa fund in April 2015, with US$1.0 bln in subscribed capital.

In 2014 alone, new direct investment commitments by Gulf companies amounted to more than US$25.0 bln. These included Trojan General Contracting of Abu Dhabi, part of the Royal Group owned by Sheikh Tahnoon bin Zayed Al Nahyan, which signed a US$16.0 bln package of infrastructure projects in West Africa, one of several pledges made at the inaugural West Africa Investment Forum, where Omani and UAE investors earmarked US$21.5 bln or African projects. In addition, Abu Dhabi's Mubadala Development and Dubai Aluminium are developing a US$5.0 bln investment that will include a bauxite mine, alumina refinery and port in Guinea, the world's largest bauxite producer. Also in 2014, the Abu Dhabi energy and water company Taqa made an investment commitment of US$330.0 mln to expand a gas power plant it operates in Ghana, whilst the Saudi company Acwa power announced plans to build a 100 MW solar power generating plant in South Africa.[86]

In July 2015 Mubadala announced an agreement to bring IBM Watson to the MENA. The joint venture will deliver Watson cloud-based cognitive computing to healthcare, retail, education, banking and finance organizations, and is also expected to help create a broad regional system of delivery partners, entrepreneurs, start-ups and app developers. This agreement follows on the heels of IBM's "Project Lucy" effort, a 10-year, US$100.0 mln research initiative launched in 2014, which will use Watson to develop commercially viable solutions to healthcare, agriculture and education challenges in Africa.[87]

In 2015 Oman's sovereign wealth fund, State General Reserve Fund (SGRF), opened an office in Tanzania to capitalize on growing investment opportunities in sub-Saharan Africa. The initial focus of the office is to develop the Bagamoyo port and special economic zone in a joint agreement with the Tanzanian Government, China Merchants Holding International, which will build the port, and China Development Bank, which will co-fund the development, which is expected to entail an initial investment of US$2.0 bln for the port development, and as much as US$10.0 bln in total investment in the economic zone, a railway line, and other associated infrastructure. According to Mohamed Al-Tooqi, the Director of SGRF's Dar es Salaam office, "The strategic nature of this investment is really looking at the Southern Corridor of trade that leads to a market made up of eight land locked countries with a population of over 120 mln people. Having an investment on the gate way and the free zone creates multiple opportunities for Omani enterprise."[88]

Commercial/retail real estate is one of the most attractive opportunities for Gulf investors, playing to GCC countries' experience with developing large shopping centers as well as a growing urban middle class in many urban centers in Africa. According to the EIU report, 10 to 12 large shopping centers, most of them financed with GCC capital, are expected to open in 2016-2017 in Lagos, Nairobi, Windhoek, Maputo, Abuja, and Harare, among other cities, adding as much as 500,000 square meters of new retail space.

Prince Al Waleed bin Talal's Kingdom Holding Company (KHC) has made substantial investments in many sectors in Africa. In 2003 KHC and U.S. private equity group Zephyr Management formed a joint venture, Kingdom Zephyr Africa Management (KZAM), a U.S. private equity group. In 2012 KHC bought out Zephyr's interest and renamed the company Kingdom Africa Management (KAM). KZAM, and, subsequently, KAM, managed Pan-African Investment Partners Funds I and II, with US$123.0 mln and US$200.0 mln, respectively. Both funds are fully invested and in their divestment phase. KAM continues to invest, targeting established, local African companies in banking and financial services, telecommunications, power, housing, construction, insurance, consumer goods, infrastructure services, mining, oil and gas. It is currently looking to establish a third pan-African fund.[89]

In June 2014, KHC and PineBridge Investments, a global asset manager with US$85.0 bln in assets under management,

86 Du Venage, G. (2015)

87 Mubadala (2015)

88 SGRF (2016)

89 Kingdom Holding (2016)

formed a joint venture to invest in direct private equity opportunities in Africa, focusing on manufacturing, consumer driven sectors, infrastructure, financial services and other sectors.[90] Separately, KHC's hotel subsidiary has invested in hotels in Mauritius, Seychelles, Kenya, Ghana, Egypt, Morocco, Uganda, and Zambia.[91]

Africa's agricultural potential has been an important focus of GCC investors, especially from Saudi Arabia. Kenana Sugar Company in Sudan, owned by the government of Sudan with 35.17 percent, the government of Kuwait with 30.5%, the Saudi government with 10.92%, and the Arab Investment Company[92] with 6.96%, cultivates 70,000 hectares in an area about 250 km south of Khartoum, and also operates a sugar refinery that produces 400,000 MT per year.[93] In 2008, KHC subsidiary SAVOLA, Saudi Arabia's largest retail chain and food processor, announced plans to invest in purchase and development of large tracts of agricultural land in several countries including Egypt, Sudan, and Ethiopia, to grow sugar, rice, edible oils, and other commodities, with the aim of supplying inputs to its processing facilities in Saudi Arabia. In 2009 Hail Agricultural Development Co (HADCO), one of the six largest private agricultural companies in Saudi Arabia, announced its intention to invest US$45.3 mln in Sudan to produce wheat and corn, with soft loans from the Saudi Industrial Development Fund to cover 60% of the total investment cost. Both Kingdom Agricultural Development Company (KADCO), a KHC subsidiary, and Al Rajhi International Investment Company invested in large-scale agriculture developments in Toshka, an area in Upper Egypt designated for large-scale irrigated agriculture.

Sudan is also an important destination for GCC investors, especially in agriculture. As of 2014, Saudi Arabia's FDI stock in Sudan equalled nearly US$13.0 bln, of which 30% concentrated in the Khartoum area, mainly in agriculture and animal resources, food processing, and mining. According to the Sudanese Higher Council of Investment, Al Rajhi has ongoing projects in Sudan to cultivate sorghum on more than 50,000 hectares, whilst Jenat, a consortium formed in March 2009 by four Saudi companies (TADCO, Almarai, JADCO and Food Products Co), invested US$40.0 mln in Sudan and Ethiopia to produce wheat, barley and animal feed.

Ethiopia has benefited substantially from GCC investment, not least through the efforts of Sheikh Mohammed Al-Amoudi, the Ethiopian-born son of a Saudi father and Ethiopian mother, who opened the Sheraton Addis Ababa Luxury Collection Hotel in 1998 and who has since invested in petroleum distribution, steel production, coffee plantations, and tire manufacturing. In addition, the Al-Amoudi-owned Saudi Star Agricultural Development Plc in late 2014 announced plans to invest US$100.0 mln to develop large-scale rice cultivation on 10,000 hectares of land leased from the Ethiopian Government and a further 4,000 hectares of purchased land in Gambela Province in Western Ethiopia, near the border with Sudan.[94]

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90 PineBridge Investments (2014)

91 Kingdom Hotels (2016)

92 The Arab Investment Company is a joint-stock company jointly owned by the governments of 17 Arab countries. It has authorized capital of US$1.2 billion and paid-up capital of US$800.0 mln, and it typically takes a minority equity stake in projects in agriculture, industry, and services. Finance, agriculture, and petrochemicals account for 42%, 20%, and 16%, respectively, of its equity portfolio. The company also provides banking services and loans to companies in which it invests.

93 Sudan Tribune (2014)

94 Bloomberg Business (2014)

Table 14: Public Land Leased to Investors in Gambela Region Ethiopia, 2009-2012

Investor or Company Name	Nationality	Investment Type	Land Transfer Area of Ha	Capital Registered Millions Birr	Land Rent Birr Per Year	Agreement Signed Date/G.C
Ruchi	Indian	Soya Bean	25,000	1,451	2,775,000	27-07-2009
BHO	Indian	Edible Oil Crops	27,000	918	2,997,000	03-09-2009
Sannati	Indian	Rice	10,000	160	1,580,000	24-01-2010
Verdanta	Indian	Tea	3,012	631	334,332	13-08-2009
Karuturi Agro Products PLC	Indian	Palm, Cereals, Rice & Sugar Cane	100,000	2,110	2,000,000	26-02-2010
Saudi Star Agricultural Development	Saudi	Rice	10,000	37,640	300,000	22-02-2010
Toren Agro Industries PLC	Turkey	Cotton and Soya Bean	-	-	-	-
Huana Dafengyuan Agriculture	China	Sugar Cane	25,000	2,973	3,950,000	05-11-2009
Saber Farm PLC	Indian	Cotton and Soya Bean	25,000	436	3,950,000	02-09-2010
Green Valley Agro PLC	Indian	Cotton Farming & Related Activities	5,000	171	550,000	25-01-2012
JVL Overseas Pvt Ltd	Indian	Cotton Farming & Related Activities	5,000	74	790,000	25-06-2012

Source: Ethiopian Ministry of Agriculture (2012)

Large-scale investors in agriculture in Ethiopia, Sudan and Egypt – many of them from the GCC but from China and India – have experienced numerous setbacks, however. Many of these are the result of poor planning and management by the host country governments, especially with respect to compensation of local communities, provision of essential transport infrastructure, and failure to liberalize internal agricultural markets.

For example, Saudi Star's Gambela project is a substantially reduced version of its original plan to grow rice on 140,000 hectares of leased land in Gambela as part of Saudi Arabia's King Abdullah Initiative for National Food Security. The US$2.5 bln project was to produce a projected 1 mln MT of rice annually, generating US$1.0 bln in export revenues and employing an estimated 250,000 people. The project, however, ran into numerous difficulties, which included disputes over land tenure and resettlement, lack of adequate infrastructure, lack of government support, government policies inhibiting development of effective market linkages, state monopolies on supply of agricultural inputs, and difficulties implementing the contract farming model on which the project was to be based, as well as widespread flooding in the region in 2011 and 2012, which caused significant setbacks to all projects in Gambela. Saudi Star's problems were not unique. Virtually all of the large-scale agriculture projects launched in Gambela between 2009 and 2012 failed to meet expectations for production and employment for similar reasons.[95] Consequently, the government cancelled leaseholds with several international companies, and a number of lawsuits were filed by both government and investors, some of which remain unresolved.

There are ample indications, however, that the government has learned from these missteps. The Agricultural Transformation Agency has established a program of Agricultural Commercialization Clusters (ACCs), initially focused on four regions of the

95 Yassin, A. (2014)

country, with an emphasis on building linkages across the entire value chain for each commodity. Ethiopia continues to encourage FDI in its agricultural sector, but has scaled back the initial amount of land it will lease to investors, with a general limit of 5,000 hectares. Egypt's Toshka development was part of the New Valley plan, launched by the Mubarak Government in the late 1990s to irrigate more than 200,000 hectares of farm land via a massive pumping station and canal to transport water from Lake Nasser. The vision also included the construction of new cities and the relocation of millions of people from urban areas in the north. The project, however, struggled to find investors and trained workers, and also suffered from mismanagement and the technical challenges of water evaporation and soil salinity. As a result, only 10%, or 22,000 hectares, have so far been irrigated. In 2011, the government took back about 30,000 of the 40,000 hectares it had granted to KADCO, which had reclaimed less than 7,000 hectares and cultivated only 1,200.[96] Al Rajhi's investment has proven more successful, and the company has planted over 7,000 hectares with wheat and rice.[97] In 2014 Egyptian President Abdel Fattah El-Sisi announced plans to revive the New Valley and to give existing investors three years to finish cultivating their allocated lands in Toshka or risk losing their land allocations.

In spite of the many pitfalls of large-scale agriculture investment in Africa, the high importance accorded to food security by most GCC governments means that investment flows are likely to continue, mainly by private companies that enjoy a high level of financial backing by their governments.

96 Cairo Post (2014a)
97 Cairo Post (2014b)

Chapter 4: The Competitiveness of Emerging Economies

A competitive business environment is crucial for attracting FDI. Essential to this are policies that specifically address obstacles, challenges and barriers faced by foreign investors. The objective of this chapter is to evaluate the current and changing international competitive position of different emerging economies (e.g. BRICS, Next-11 countries and GCC countries) to identify which economies' business environments are expected to become more competitive. The first section seeks to identify recent trends in assessing the competitiveness of developing and emerging economies by firstly focusing on the overall business environment, after which emphasis is put on the competitiveness of FDI-orientated policies. The current chapter will explore these ideas by first examining current competitiveness levels and overall policies. The chapter will then explore how competitiveness has changed in FDI, with a shift in emphasis from cost reduction to a more holistic approach to investment.

Conclusions of this Chapter are that, firstly, the majority of the world's top-10 competitive economies remain situated in North America, northern and central Europe and Asia-Pacific region. On the opposite, the world's least competitive economies are less geographically concentrated and can be found throughout various areas of the world, including Sub-Saharan Africa, the Middle East and North Africa, former Soviet Union countries and a number of countries in Latin America. Secondly, countries that are expected to improve the most are eastern European countries (e.g. Serbia, Romania and Ukraine) as well as countries in the Eurozone that by 2020 are expected to have recovered from the economic recession and Euro crisis (e.g. Spain, Ireland and Italy). Thirdly, great regional variety exists. Three out of the five BRICS countries (i.e. China, Brazil and, particularly, Russia) feature among the countries expected to drop significantly on the global competitiveness ranking. Among the Next-11 countries, the business environment of South Korea is the most competitive whilst Mexico is expected to approach South Korea by 2020. Turkey is expected to have lost ground to other economies, resulting in a competitiveness similar to that of the Philippines and Vietnam. Bahrain features among the few countries that are expected to have experienced a decline in their competitiveness score by 2020. Bahrain is, however, not the only GCC country whose position on the global competiveness ranking is expected to weaken. Kuwait, Qatar and Saudi Arabia are expected to each lose their current positions on the global competitiveness ranking. Finally, in line with the previous findings, most of the countries with the most competitive FDI policies are located in the same regions as the countries that rank high on the general competitiveness ranking. Chile is a noteworthy exception. Mexico, the only Next-11 country, is expected to join the top ten countries with the most favorable FDI policy. Both Brazil and India are expected to slightly improve their FDI policies with respect to investor protection. This further reinforces Brazil's position as most competitive among the BRICS in terms of FDI policy, followed by China, India and South Africa, with Russia trailing.

Ranking the Competitiveness of the General Business Environment

As opposed to the previous chapters, this chapter relies on business environment data derived from the EIU. This data is used for The Economist's annual Business Environment Rankings which evaluates the quality or attractiveness of the business environment in the 82 countries covered by The Economist Intelligence Unit's Country Forecast reports. It features both historical conditions (i.e. from 2011 to 2015) as well as expectations (i.e. from 2016 to 2020) on future business environment conditions.

Data on the overall performance of the Business Environment Ranking of the 82 countries is used in the first section of this chapter, which evaluates the competitiveness of the general business environment. In turn, the overall Business Environment Ranking consists of 10 categories, of which policy towards foreign investment is one. Data from this section will be used in the second section of this chapter to assess the competitiveness of FDI policies. Each category contains a number of indicators that are assessed by the EIU from 2011 to 2015 as well as from 2016 to 2020. The category "policy towards foreign investment" is measured by five indicators. Together, the 10 categories are represented by 91 indicators. These indicators are derived from national and international statistical sources and surveys for the historical period (i.e. 2011 to 2015) and from EIU assessments for the forecast period (i.e. 2016 to 2020). Half of these indicators are quantitatively measured (e.g. GDP growth) whilst the other half is measured in a qualitative manner (e.g. quality of the financial regulatory system).[98]

98 EIU (2014)

As of 2015, the majority of the world's top-10 competitive economies are located in North America and northern and central Europe. This list also contains the city states Hong Kong and Singapore, as well as Australia and New Zealand. No major shifts in the competitiveness ranking are expected for the years up to 2020. The dominance of Singapore and Hong Kong is expected to continue, with Singapore further strengthening its competitive position. Hong Kong's score is forecasted to drop slightly relative to the leader but will still retain a 2nd rank. The Netherlands and Denmark are expected to complement the 10 most competitive countries by 2020 at the expense of Switzerland and Germany, which are forecasted to drop back to ranks 11 and 13, respectively.

Table 15: Ten most competitive economies, 2011-2015 and 2016-2020

	2011-2015				2016-2020	
Rank	Country	Score		Rank	Country	Score
1.	Singapore	8.54		1.	Singapore	8.61
2.	Hong Kong	8.38		2.	Hong Kong	8.36
3.	Switzerland	8.28		3.	Canada	8.29
4.	Canada	8.24		4.	Sweden	8.25
5.	Sweden	8.20		5.	US	8.23
6.	US	8.17		6.	New Zealand	8.22
7.	Australia	8.16		7.	Netherlands	8.20
8.	Finland	8.12		8.	Australia	8.19
9.	New Zealand	8.09		9.	Finland	8.18
10.	Germany	8.03		10.	Denmark	8.17

Source: EIU Date range: 2011-2015 and forecasts

In contrast, the majority of the least competitive countries is less concentrated and can be found throughout various parts of the world, including Sub-Saharan Africa, the MENA region, CIS countries and a number of Latin American countries. Among these countries are a number of Next-11 countries (e.g. Iran, Nigeria and Pakistan).

For the period from 2016 to 2020, Libya is expected to drop to the bottommost rank as least competitive economy, replacing Angola, mainly due to political instability, unfavorable tax regimes and poor FDI policies, despite a slight improvement in its economic stability. The situation for Venezuela is similar, though this country is expected to further lose competitiveness as a consequence of its weaker financial climate.

Ukraine and Azerbaijan are positive exceptions in this list, and are forecasted to move up to ranks 68 and 71, respectively. These nations will move past Pakistan and Ecuador, which are expected to feature among the 10 least competitive economies by 2020. Pakistan's competitiveness score will not change considerably but is expected to be outperformed by other similar economies, whilst Ecuador's expected loss of competitiveness is related to weaker foreign trade and exchange regimes (e.g. tariffs).

Table 16: Ten least competitive economies, 2011-2015 and 2016-2020

2011-2015			2016-2020		
Rank	Country	Score	Rank	Country	Score
82.	Angola	3.67	82.	Libya	3.12
81.	Libya	3.74	81.	Venezuela	3.60
80.	Iran	3.86	80.	Angola	3.93
79.	Ukraine	4.04	79.	Kenya	4.70
78.	Cuba	4.08	78.	Iran	4.81
77.	Venezuela	4.12	77.	Algeria	4.86
76.	Kenya	4.25	76.	Nigeria	4.87
75.	Azerbaijan	4.51	75.	Cuba	4.93
74.	Algeria	4.57	74.	Pakistan	5.06
73.	Nigeria	4.58	73.	Ecuador	5.10

Source: EIU Date range: 2011-2015 and forecasts

Comparing the rankings and scores of the time frame from 2011 to 2015 with the time frame from 2016 to 2020 provides an insight into which countries are expected to improve or decline in their competitiveness. On average (based on all 82 economies for which data is available) overall competitiveness scores are expected to increase by 0.26 by 2020.

Among the countries that are expected to improve strongest are eastern European countries (e.g. Serbia, Romania and Ukraine) as well as those countries in the Eurozone that will have recovered from the economic recession and Euro crisis (e.g. Spain, Ireland and Italy). For Serbia, Ukraine and, to a lesser extent, Romania, a combination of increased political stability, political effectiveness, improved economic stability, increased market opportunities and more liberal private enterprise policies are expected to contribute to their enhanced competitiveness. For Ukraine, the improvement also relates to a more favorable tax regime. Romania is likely to have improved its foreign trade and exchange regime.

For Argentina, improved political effectiveness, a better financing climate and, particularly, more FDI-friendly and supportive private enterprise policies are factors contributing to the country's predicted sharp rise in competitiveness. India's expected improvement of its overall business climate can be attributed to its more competitive infrastructure, tax regime and market opportunities.

Finally, Morocco is expected to enhance its competitive rank and competitiveness score substantially as a result of considerable improvements in its political effectiveness and macro-economic stability in combination with a more liberal financing climate and flexible regulations regarding private enterprise investment.

Table 17: Strongest performers regarding business environment, 2011-2015 and 2016-2020

	Rank 2011-2015	Rank 2016-2020	Change			Score 2011-2015	Score 2016-2020	Change
Serbia	65	46	+19		Ukraine	4.04	5.51	+1.47
Romania	48	33	+15		Serbia	5.22	6.43	+1.21
Argentina	70	57	+13		Argentina	4.98	5.51	+1.14
Ukraine	79	68	+11		Iran	3.86	4.81	+0.95
Japan	28	20	+8		Romania	6.10	6.95	+0.85
Spain	30	22	+8		Cuba	4.08	4.93	+0.85
India	59	53	+6		Morocco	5.00	5.70	+0.70
Ireland	17	12	+5		Azerbaijan	4.51	5.21	+0.70
Italy	43	38	+5		India	5.50	6.17	+0.67
Morocco	69	64	+5		Sri Lanka	5.47	6.09	+0.61
Average	-	-	-		Average	6.35	6.61	+0.26

Source: EIU Date range: 2011-2015 and forecasts

Only a limited number of countries are expected to be confronted with an actual decrease in the competitiveness of their business environment. This scenario may be the future for Libya, Venezuela, Bahrain, Switzerland, Russia and Hong Kong. The competitiveness of Ecuador and Lithuania are expected to remain stable as their scores for 2016 to 2020 are similar to the competitiveness scores they achieved for the time frame spanning from 2011 to 2015.

As highlighted before, political instability, unfavorable tax regimes and poor FDI policies are expected to further weaken the competitive position of Libya and Venezuela. Switzerland and Hong Kong are somewhat exceptional cases due to their high overall business environment rankings, indicating very competitive economies. Switzerland's predicted decrease in competitiveness is related to a weaker political stability (mainly concerning international disputes) and macroeconomic stability (i.e. lower quality of policymaking and institutional underpinnings). Hong Kong's slightly weaker political environment as a result of social unrest and opposition to the government may negatively affect its future competitiveness score.

In addition, a number of countries are expected to experience a decline in their competitiveness rank despite an actual increase in their competitiveness score. This implies that competitive countries in the period 2011 to 2015 are expected to outperform these countries due to stronger improvements and, thus, move up the global ranking. This is the case for El Salvador, Turkey, Estonia, Czech Republic, China and Brazil.

El Salvador's drop of nine ranks is mostly related to the expected decrease in the quality of its infrastructure and general financial climate. Declining market opportunities (i.e. reduced growth of imports and exports) seem to be the main cause for the future decline of Estonia's competitiveness, whilst changing VAT regulations are expected to result in a drop of the competitiveness of the Czech Republic.

Table 18: Weakest performers regarding business environment, 2011-2015 and 2016-2020

	Rank 2011-2015	Rank 2016-2020	Change			Score 2011-2015	Score 2016-2020	Change
Russia	60	70	-10		Libya	3.74	3.12	-0.62
El Salvador	54	63	-9		Venezuela	4.12	3.60	-0.52
Bahrain	32	41	-9		Bahrain	6.87	6.62	-0.24
Switzerland	3	11	-8		Switzerland	8.28	8.16	-0.08
Turkey	47	54	-7		Russia	5.48	5.43	-0.05
Estonia	21	27	-6		Hong Kong	8.38	8.36	-0.02
Ecuador	67	73	-6		Ecuador	5.10	5.10	0.00
Czech Republic	24	30	-6		Lithuania	6.54	6.54	0.00
China	49	55	-6		El Salvador	5.85	5.86	+0.01
Brazil	46	51	-5		Slovenia	6.79	6.80	+0.01
Average	-	-	-		Average	6.35	6.61	+0.26

Source: EIU Date range: 2011-2015 and forecasts

Three out of five BRICS (China, Brazil and, particularly, Russia) feature among the countries expected to be confronted with significant declines in the global competitiveness ranking of their business environments. Among the BRICS, South Africa's competitiveness is expected to remain stable with a slight improvement in its overall ranking (from rank 51 to 48), accompanied by a score that is forecast to increase from 5.94 to 6.29.

China's expected declining competitiveness is a result of weaker economic stability and less favorable FDI and foreign trade policies that limit the ease and openness of (international) trade. Improvements in China's financing climate and, to a lesser extent, its labor market and infrastructure do not compensate for these weaknesses.

Political and economic instability and a weaker financial climate are expected to contribute to the decline of Brazil's competitiveness. Brazil's government seems to play a major role in this issue as social unrest, opposition against the government, decreasing government efficacy, increased government debt, unbalanced government budget and decreasing quality of policymaking and institutional underpinnings are expected to undermine the country's competitiveness. This, in turn, is expected to adversely affect the stock market and financial industry, which further weakens Brazil's financial climate and business environment.

Russia's economic stability is expected to improve over the next four years, mainly due to decreasing exchange rate volatility. However, this improvement does not offset Russia's weakening political stability and financial climate. A weaker stock market and financial distortions – possibly in combination with lower oil revenues - are likely to weaken Russia's financial climate, whilst Russia's involvement in geopolitical conflicts is expected to further undermine its political stability.

As already mentioned, India's expected improvement of its overall business environment can be attributed to its more competitive infrastructure, corporate income tax regime, increase in demand for imports and enhanced investment efficiency. Both India's transport infrastructure (e.g. road density, rail density and ports) as well as ICT infrastructure (e.g. use and connectivity of telephone, internet, mobiles and personal computers) are expected to contribute to the overall improvement of its business environment.

Table 19: Key business environment trends across BRICS, 2011-2015 and 2016-2020

	Rank 2011-2015	Rank 2016-2020	Change	Score 2011-2015	Score 2016-2020	Change
Brazil	46	51	-5	6.17	6.24	+0.07
China	49	55	-6	6.05	6.66	+0.11
India	59	53	+6	5.50	6.17	+0.67
Russia	60	70	-10	5.48	5.43	-0.05
South Africa	51	48	+3	5.94	6.29	+0.35

Source: EIU Date range: 2011-2015 and forecasts

The business environment of South Korea is most competitive for the Next-11 countries and is expected to continue so up to 2020, despite a small drop in terms of its competitiveness ranking (from rank 22 to 26) due to reduced market opportunities and less favorable private enterprise, foreign trade and exchange policies. Mexico comes in at a second place and is expected to approach South Korea with a 31st rank by 2020. Turkey, currently ranked at 47th place, is expected to lose ground to other economies in 2020 and by then its competitiveness will be similar to the Philippines and Vietnam. Egypt and Indonesia are comparable in terms of their competitiveness, whilst Bangladesh, Iran, Nigeria and Pakistan can be clustered together as the least competitive Next-11 countries – both for the present as well as for the nearby future up to 2020. Iran, and, to a lesser extent Vietnam and Indonesia, are expected to increase their competitiveness scores considerably above the global average increase of 0.26, with 0.95, 0.53 and 0.49, respectively.

Turkey is featured among the countries that are expected to experience the sharpest decline in the competitiveness of their business environment. Of the Next-11 countries, Turkey's competitiveness rank is expected to decline seven ranks, whilst its competiveness score is expected to increase minimally (with 0.05 only). A wide range of factors can be associated with Turkey's expected decline in competitiveness. Major factors concern political instability, such as Turkey's recent involvement in geopolitical conflicts, continuing threat of terrorism, social unrest and opposition to the government. Other factors contributing to Turkey's expected decreasing competitiveness include less favorable private enterprise policies that restrict the level of freedom to compete. Also, countries with a level of competitiveness similar to Turkey are expected to more profoundly improve their financial climate and tax regime, whilst Turkey's financial climate and tax regime remain more or less similar and thus will be outperformed.

Table 20: Key business environment trends across selected Next-11 countries, 2011-2015 and 2016-2020

	Rank 2011-2015	Rank 2016-2020	Change	Score 2011-2015	Score 2016-2020	Change
Bangladesh	71	72	-1	4.88	5.21	+0.33
Egypt	64	65	-1	5.37	5.68	+0.31
Indonesia	63	62	+1	5.41	5.90	+0.49
Iran	80	78	+2	3.86	4.81	+0.95
Mexico	33	31	+2	6.82	7.06	+0.25
Nigeria	73	76	-3	4.58	4.87	+0.29
Pakistan	72	74	-2	4.77	5.06	+0.29
Philippines	55	56	-1	5.85	6.16	+0.32
South Korea	22	26	-4	7.24	7.39	+0.16
Turkey	47	54	-7	6.12	6.17	+0.05
Vietnam	58	59	-1	5.55	6.08	+0.53

Source: EIU Date range: 2011-2015 and forecasts

As has already been demonstrated, Bahrain features among the few countries that are expected to have experienced an actual decline in their competitiveness score by 2020. Political and economic instability are expected to weaken Bahrain's competitiveness considerably. Social unrest, conflicts, opposition to the government and the threat of terrorism are expected to undermine the political stability whilst price instability, government debts, a less balanced budget and increased exchange rate volatility affect Bahrain's economic stability.

Bahrain is not, however, the only GCC country whose position on the global competiveness ranking is expected to decrease. Despite a predicted increase in their competitiveness scores (though below the global average of +0.26), Kuwait, Qatar and Saudi Arabia are expected to each lose two ranks on the global competitiveness ranking. The cause is mainly attributed to weaker macroeconomic stability (e.g. price instability and less-balanced government budgets) and reduced market opportunities. In fact, the competitiveness of the business environments of Bahrain, Kuwait and Saudi Arabia are expected to be very similar by 2020, whilst the economies of the UAE and Qatar are to become considerably more competitive. The UAE's expected strong performance should be associated with enhanced political stability, more liberal government regulation, increased freedom to compete for private enterprises, better price controls and the protection of minority shareholders, which should outweigh the UAE's weaker macroeconomic stability and reduced market opportunities.

Table 21: Key business environment trends across selected GCC countries, 2011-2015 and 2016-2020

	Rank 2011-2015	Rank 2016-2020	Change	Score 2011-2015	Score 2016-2020	Change
Bahrain	32	41	-9	6.87	6.62	-0.24
Kuwait	41	43	-2	6.31	6.53	+0.22
Qatar	26	28	-2	7.13	7.30	+0.16
Saudi Arabia	45	47	-2	6.21	6.39	+0.18
UAE	25	24	+1	7.14	7.49	+0.35

Source: EIU Date range: 2011-2015 and forecasts

Ranking the Competitiveness of FDI Policies

Not surprisingly, most of the countries with the strongest competitive FDI policies are located in the same regions as the countries with the most competitive business environment. Chile is a noteworthy exception and is expected to maintain its position through 2020. Singapore is expected to drop one rank, leaving Ireland as the most competitive country in terms of FDI-friendly policy. Mexico, Spain and New Zealand are expected to join the top 10 countries with the most favorable FDI policy at the expense of Australia.

Table 22: Ten most favorable FDI policy economies, 2011-2015 and 2016-2020

	2011-2015				2016-2020	
Rank	Country	Score		Rank	Country	Score
1.	Ireland; Singapore	10.00		1.	Ireland	10.00
3.	Denmark; Netherlands; Sweden; Chile	9.55		2.	Denmark; Netherlands; Sweden; Singapore; Chile	9.55
7.	Belgium; Finland; UK	9.10		7.	Belgium; Finland; UK	9.10
10.	US; Canada; Germany; Switzerland; Estonia; Australia; Hong Kong; Israel	8.65		10.	US; Canada; Germany; Spain; Switzerland; Estonia; Hong Kong; Israel; New Zealand; Mexico	8.65

Source: EIU Date range: 2011-2015 and forecasts

The changes for countries with the least favorable FDI policy are expected to be more substantial and dynamic. Iran and Angola are expected to move up the global rank, resulting in a position equal to Cuba. This change is predicted to occur at the expense of Venezuela and Libya, which may be the least favorable countries in terms of FDI policy by 2020, followed by Russia, which also drops multiple ranks. By 2020, the countries with the least favorable FDI policies are complemented with Bangladesh and Nigeria.

Table 23: Ten least favorable FDI policy economies, 2011-2015 and 2016-2020

2011-2015				2016-2020		
Rank	Country	Score		Rank	Country	Score
82.	Iran	1.90		81.	Venezuela; Libya	2.80
81.	Angola	2.80		80.	Russia	3.25
80.	Cuba	3.25		77.	Cuba; Iran; Angola	3.70
78.	Russia; Venezuela	3.70		76.	Ecuador	4.25
73.	Azerbaijan; Kazakhstan; Ukraine; Ecuador; Libya	4.15		74.	Azerbaijan Kazakhstan	4.60
				71.	Bangladesh; Nigeria; Ukraine	5.05

Source: EIU Date range: 2011-2015 and forecasts

On average, based on all 82 economies for which data is available, a country is expected to have experienced an increase of 0.18 regarding its FDI policy competitiveness score by 2020. Countries that are expected to make the strongest FDI policy improvements reflect to a great extent the countries that are expected to experience the greatest improvements of the general competitiveness of their business environment. This is the case for Argentina, Italy, Sri Lanka, Japan, Spain, Japan, Iran and Ukraine. Mexico, Egypt and Qatar form notable exceptions, which feature among the countries that are expected to improve their FDI policy the most.

Most prominent is Argentina's forecasted performance, which is expected to make considerable progress on investor protection, improved government favoritism towards foreign investors and reducing the risk of expropriation. Sri Lanka is expected to considerably reduce the risk on expropriation whilst Japan and New Zealand are expected to increase their regulation on investor protection.

Table 24: Strongest performers regarding FDI policy, 2011-2015 and 2016-2020

	Rank 2011-2015	Rank 2016-2020	Change		Score 2011-2015	Score 2016-2020	Change
Argentina	70	44	+26	Argentina	4.60	6.85	+2.25
Italy	39	20	+19	Iran	1.90	3.70	+1.80
Sri Lanka	50	35	+15	Italy	6.85	8.20	+1.35
Japan	58	44	+14	Mexico	7.75	8.65	+0.90
Mexico	24	10	+14	Egypt	6.85	7.75	+0.90
Egypt	39	27	+12	Qatar	6.85	7.75	+0.90
Qatar	39	27	+12	Angola	2.80	3.70	+0.90
Spain	18	10	+8	Ukraine	4.15	5.05	+0.90
New Zealand	18	10	+8	Sri Lanka	6.40	7.30	+0.90
Croatia	50	44	+6	Japan	5.95	6.85	+0.90
Average	-	-	-	Average	6.83	7.01	+0.18

Source: EIU Date range: 2011-2015 and forecasts

The countries where FDI policy is expected to weaken over the next years only partially collates to those countries that are expected to be confronted with a weaker general business environment. This is the case for China, Libya, Venezuela, Lithuania and Russia. Serbia, Peru and Kuwait are expected to be outperformed by economies that had a similar competitive FDI policy as of 2015.

For Poland, the expected decline in competitiveness of its FDI policy is associated with reduced favoritism of the government towards foreign investors. The increased risk of expropriation – together with its debt and currency risks – are among the causes for Greece's expected decline. For Australia, a weaker interest of foreign firms to invest due to an overall weaker investment climate is expected to undermine the competitiveness of its FDI policy.

Table 25: Weakest performers regarding FDI policy, 2011-2015 and 2016-2020

	Rank 2011-2015	Rank 2016-2020	Change			Score 2011-2015	Score 2016-2020	Change
China	39	60	-21		Libya	4.15	2.80	-1.35
Poland	24	44	-20		Venezuela	3.70	2.80	-0.90
Greece	50	66	-16		Poland	7.75	6.85	-0.90
Australia	10	20	-10		Greece	6.40	5.50	-0.90
Libya	73	81	-8		China	6.85	5.95	-0.90
Lithuania	39	44	-5		Singapore	10.00	9.55	-0.45
Serbia	39	44	-5		Russia	3.70	3.25	-0.45
Colombia	39	44	-5		Australia	8.65	8.20	-0.45
Peru	39	44	-5		Peru	6.85	6.85	0.00
Kuwait	39	44	-5		Kuwait	6.85	6.85	0.00
Average	-	-	-		Average	6.83	7.01	+0.18

Source: EIU Date range: 2011-2015 and forecasts

Both Brazil and India are expected to make some slight FDI policy improvements with respect to investor protection. This further reinforces Brazil's position as most competitive among the BRICS with regards to FDI policy, followed by China, India and South Africa (all three rank 60) and Russia (rank 80). China's strong decline in FDI policy competitiveness is affected by a loss of general attractiveness to foreign investors and government favoritism whilst Russia is expected to lose terrain due to increased expropriation risks. South Africa, for which no major changes are expected when it comes to FDI policy, is expected to lose two ranks as economies with a similar level of competitiveness are expected to improve their FDI policy competitiveness.

Table 26: FDI policy trends across BRICS, 2011-2015 and 2016-2020

	Rank 2011-2015	Rank 2016-2020	Change	Score 2011-2015	Score 2016-2020	Change
Brazil	31	27	+3	7.30	7.75	+0.45
China	39	60	-21	6.85	5.95	-0.90
India	64	60	+4	5.50	5.95	+0.45
Russia	78	80	-2	3.70	3.25	-0.45
South Africa	58	60	-2	5.95	5.95	0.00

Source: EIU Date range: 2011-2015 and forecasts

Among the Next-11 countries, Mexico's FDI policy is by far the most competitive and is expected to make further headway due to a general increase in attractiveness to foreign investors and reduced risks of expropriation. South Korea, also expecting to improve its overall attractiveness to foreign investors, follows Mexico but is forecasted to have been outperformed by Egypt by 2020. Egypt's expected strong increase is a result of an enhanced openness of the national culture to foreign investors and improved general attractiveness to FDI.

A number of Next-11 countries are not expected to improve their FDI policies but are consequently outperformed by countries with similar attractiveness that are likely to strengthen their policies aimed at foreign investors. This is the scenario for Nigeria, Pakistan, Philippines and Turkey.

Finally, Iran – the Next-11 country with the least favorable FDI policy as of 2015 – is expected to make progress due to a reduced risk of expropriation, increased favoritism of the government and national culture towards foreign investors and a generally more attractive business environment for foreign investors.

Table 27: Key FDI policy trends across selected Next-11 countries, 2011-2015 and 2016-2020

	Rank 2011-2015	Rank 2016-2020	Change	Score 2011-2015	Score 2016-2020	Change
Bangladesh	70	71	-1	4.60	5.05	+0.45
Egypt	39	27	+12	6.85	7.75	+0.90
Indonesia	67	66	+1	5.05	5.50	+0.45
Iran	82	77	+5	1.90	3.70	+1.80
Mexico	24	10	+14	7.75	8.65	+0.90
Nigeria	67	71	-4	5.05	5.05	0.00
Pakistan	58	60	-2	5.95	5.95	0.00
Philippines	58	60	-2	5.95	5.95	0.00
South Korea	39	35	+4	6.85	7.30	+0.45
Turkey	50	54	-4	6.40	6.40	0.00
Vietnam	58	54	+4	5.95	6.40	+0.45

Source: EIU Date range: 2011-2015 and forecasts

Across GCC countries, Bahrain is ranked highest in terms of competitiveness of its FDI policy. Qatar's FDI policy competitiveness, driven by improvements of its general attractiveness to foreign investors and openness of its national culture, is expected to be similar to Bahrain's FDI policy competitiveness by 2020. The UAE are expected to increase their FDI policy competitiveness as well through increased investor protection, leading to a 35th rank in 2020. Saudi Arabia, followed by Kuwait, remains the least favorable of the GCC countries when it comes to FDI policy, with no major improvements expected.

Table 28: Key FDI policy trends across selected GCC countries, 2011-2015 and 2016-2020

	Rank 2011-2015	Rank 2016-2020	Change	Score 2011-2015	Score 2016-2020	Change
Bahrain	24	27	-3	7.75	7.75	0.00
Kuwait	39	44	-5	6.85	6.85	0.00
Qatar	39	27	+12	6.85	7.75	+0.90
Saudi Arabia	64	66	-2	5.50	5.50	0.00
UAE	39	35	+4	6.85	7.30	+0.45

Source: EIU Date range: 2011-2015 and forecasts

Costs and Capabilities

As has been noted elsewhere in this report, companies and other institutions engaging in FDI have evolved their drivers for investment as compared with those used in the past. Whereas the four major motivations for FDI (i.e. the need to increase access to natural resources, the need for new markets, the need to access and utilize assets, and the need to gain competitive advantage through increased efficiency and reduced cost) remain, the decisions where to invest and even how to invest are changing.

Much of the motive for investment in the developing world over the previous 20 years was driven by a desire to reduce the cost of operations, often to the exclusion of other factors. This overemphasis on cost as a driver for FDI led to some interesting decisions, and some of those decisions have been revisited more comprehensively in subsequent years.

The evidence for flaws in the strategy became apparent fairly early. Many companies moved solely on the concept of cost, and found that they saved money on labor. However, they also ended up incurring other costs, such as the cost of rework or the need to address general quality of workmanship. Still others did not anticipate delays, travel, lodging and other factors that would be involved in managing remote operations. Others did not anticipate the cultural challenges of managing a workforce and a value chain that was fundamentally different to what they had ever experienced in their home countries. Lastly, many did not anticipate the regulatory uncertainties that they might encounter in nation or environment unlike their own.[99]

In one of the most famous cases, Dell outsourced its IT customer call center to an Indian-based service provider starting in 2001. The company chose partners in several locations in India based on cost, access to talent (as expressed by sheer work force size), seasonality and the ability to scale, the ability to leverage work over third-party vendors, and the ability to spread across geography both for natural disaster risk as well as time zone coverage.

Unfortunately, Dell's solution failed on several counts, resulting in significant customer service nightmares, and significant damage to the global brand. The root of the failures began in planning and management, and a general failure to understand how these centers would truly integrate into the overall customer experience and value chain for the company. Processes were not established, and management of the centers was lacking.

Culture and the ability to understand the client created another significant reason for the failure. Generally speaking, the agents that were retained in India were unable to relate to the needs of the American and Western European customers they were serving. As a result, there was no legitimate way to expect them to empathize with – and then satisfy – the requirements of that customer base. So while costs were reduced from a financial measurement perspective, the actual desired "work" was not getting done[100]. Significant damage was incurred. A more holistic understanding of the operations' success criteria – rather than relying on cost benefits – could have provided a more sound basis for Dell's FDI strategy.

99 Salon (2004)
100 CN Blogs (2011)

Textbox 4.1 sheds light on the interaction between other forms of investment and NFIs and the (competitiveness of) the business environment, as just illustrated by Dell's case.

Textbox 4.1: A competitive business environment for other (new) forms of investment?

As opposed to other internationalization strategies such as exports, licensing, joint ventures (JVs) and M&As, FDI is the most immediate and risky mode of market entry. The investment is directly exposed to the quality of the business environment of the foreign host country and the company's involvement with the foreign host country is highest. FDI as such is typically vulnerable to current conditions and (unexpected) dynamics in the local business environment, which may directly affect the company's operations. Therefore, evaluating the host country's competitiveness according to the particular needs and requirements of the investor is a critical pre-requisite before realizing a FDI project in order to alleviate and anticipate on potential risks.

However, FDI as form of investment also most strongly guarantees exclusive control over – and full ownership of – its operations. By contrast, exporting has always been considered as the least risk-sensitive internationalization strategy as it requires a minimal investment as well as international expertise. Competitiveness of a business environment for exports usually relies to the actual market size, presence to (neighboring) markets and expected internal domestic market growth. Moreover, its direct exposure and interaction with foreign markets are limited. That is, at least, when compared to FDI and other forms of investment as, for instance, changes in import and customs regulations in a foreign country can adversely affect exports and may encourage FDI.

But what about other (new) forms of investment? Some forms have effectively been used as a substitute for FDI in order to avoid considerable risks in uncompetitive business environments. This particularly applies to licensing, strategic alliances and JVs. Partnering with a local firm enables the international company to be connected with a firm that understands the dynamics of the local market (e.g. local labor market) and which already has considerable experience in operating under country-specific conditions (e.g. familiarity with government bureaucratic and regulations) at a relatively low investment cost. However, in the case of licensing and strategic alliances, when intellectual property rights in the business environment are not protected, other new forms investment such as JVs, M&As or FDI are preferred. A key component that determines a country's competitiveness for attracting licensing and strategic alliances thus relates to its investor protection policies.

The attractiveness of a country for JVs depends very much on the original rationale for targeting the country in which the JV partner is located. As with licensing and strategic alliances, this can be related to (a combination of) access to unfamiliar or untapped markets, risk sharing and economies of scale. More specifically, companies may look to establish JVs to acquire particular technologies (i.e. "asset-seeking") and/or reduce operating costs (i.e. "efficiency-seeking"). As such, the competitiveness of a foreign country for establishing JVs may depend on the local labor force endowment in the former case and on the operation costs in the latter case. Some general policies that need to be in place to enable strong JVs relate to dividend and investment policies, export rights, (multinational) tax regimes and conflict resolution regulation. In fact, JVs may be used to circumvent domestic legal restrictions on FDI and to reduce the risk of expropriation.

The advantage of M&As is to quickly access a market in combination with acquiring industry-specific assets, capabilities, expertise and technologies. As such, M&As are usually a combination of "market-seeking" and "asset-seeking" forms of investment, which in turn determines the competitiveness of a business environment for M&As. However, as M&A has been criticized as it does not deliver short-term economic benefits and forms a threat to domestic ownership of companies, many governments worldwide have implemented strict M&A regulations to prevent from hostile takeovers. These regulations – exactly their rationale – severely undermine the competiveness of a wide range of countries for undertaking M&As.

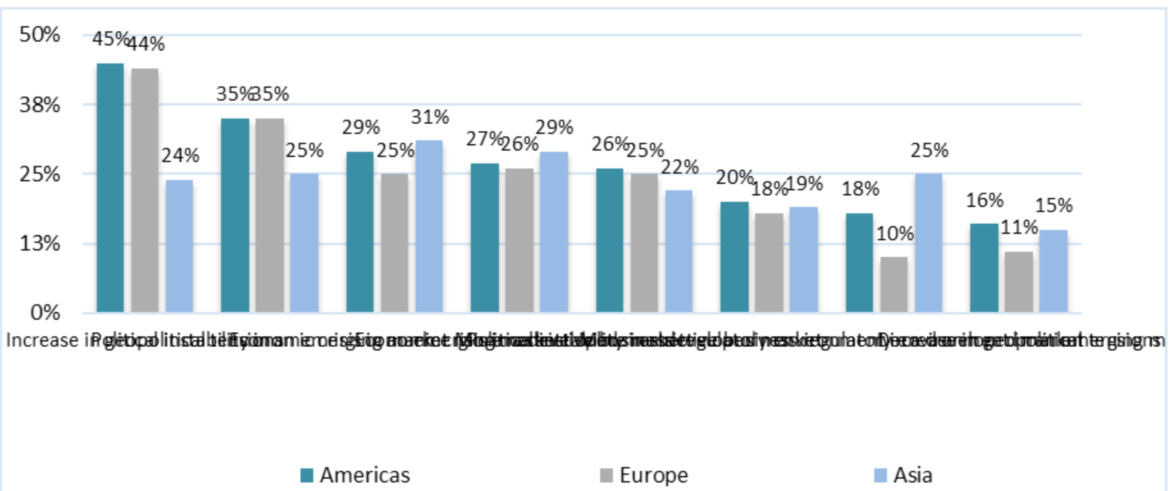
In essence, different forms of investment may be used to mitigate risks present in a foreign host country in which the company is seeking to conduct business. Forms of investment may be used subsequently, depending on the desired presence in the respective foreign market (i.e. initial market entry, gradual expansion or strong but immediate global presence) or simultaneously in the same or in different markets. The choice of which form of investment to use seems thus to be dependent upon the maturity of the company and its industry, the competitiveness of the business environment of the foreign host country (relating both to institutional as well as operational risks) and the company's internal resources, capabilities and competencies.

Risk and Resilience

As mentioned above, the nature of political risk and disruptions to the value chain have increasingly become relevant for location decisions. As is shown in the A.T. Kearny information in the figure below[101], companies are more often viewing the increase in geopolitical tensions, political instability in emerging markets, and economic crisis in emerging markets were cited as key drivers in location decisions. This clearly is a difference to earlier discussions which emphasized market entry, market access and cost as critical location drivers. Political risk is increasingly seen as a key wildcard driving location decisions.

In addition to this, the lessons learned through the Tōhoku earthquake on 11 March 2011 and the following crisis at Fukushima have caused companies to look at their global supply chains in a more critical way, looking for and examining ways to build resiliency into the system. Dr. Yossi Sheffi of MIT has performed considerable research on the topic of resilience[102] and his work is getting more attention at global conferences on logistics and supply chain movement. It stands to reason that overall resilience will be factored in a more systematic way in future global FDI decisions.

Figure 28: Which wild cards are more likely to occur next year (as percentage of total number of respondents)?



Source: A.T. Kearney (2015)

101 A.T. Kearney (2015)

102 Sheffi, Y. (2007)

Chapter 5: Putting the Right and New Policies and Practices in Place for Attracting FDI and NFI

This chapter will highlight the latest trends in investment policies that are being followed by countries globally and analyze to what extent their FDI policies are truly becoming more investor-friendly. In determining effective policies for attracting FDI and NFI, it is important to first understand how individual companies and organizations assess whether and where to locate new facilities. In other words, how much do favorable investment policies affect companies' location decisions? Trends in investment and, in particular, FDI policies will be examined on a national level after the location decision-making process has been explained. The final section of this chapter considers policy tools used by many governments to pull in FDI: incentives and free zones. We examine some of the important trends in the investment incentives offered by emerging and developing countries, as well as the main challenges, and offer some conclusions with respect to optimal design of incentives to attract FDI.

The general picture emerging from Chapter 5 is that policies towards FDI seem to be improving as numerous – mostly emerging - economies are expected to offer a more liberal and efficient FDI policy framework by 2020. Nevertheless, this optimism needs to be nuanced as an improved policy framework does not necessarily imply a more transparent, more efficient and less bureaucratic policy environment welcoming FDI. In fact, many MNEs undertaking FDI emphasize that some policies have become more complex and less transparent whilst the stability and predictability of such policies is crucial for their FDI projects. Unexpected changes in policy and regulatory frameworks that may adversely affect investors' existing interests may encourage the investor to bring their matter (and host government) to an arbitral tribunal based on ISDS mechanisms. In 2015, investors initiated 70 such ISDSs, mostly against governments of developing economies. To put this into perspective, a total of 409 ISDS claims have been registered on 108,056 FDI projects from 2008 to 2015. This implies one out of 264 MNEs undertaking FDI has filed an ISDS claim. This number confirms that foreign investors increasingly need and/or make use of ISDS provisions. One of the areas where changes in the legal and regulatory framework initiated by the host government may directly affect investors' interests, thus potentially leading to ISDS claims, concerns the provision of incentive packages and preferential treatment within free zones. Policy reforms and amendments adversely affecting current incentive recipients are frequently the cause of disputes between investors and host governments. In order to enhance the transparency, accountability and credibility of incentive regimes, it is, amongst others, critical to incorporate monitoring and evaluation (M&E) mechanisms that track the overall performance of the incentive program as well as the compliance of individual incentive recipients with eligibility criteria and performance requirements. Simultaneously, incentive regimes need to be aligned with current and evolving market needs to cater to the needs of their recipients.

Understanding Location Decision-making

Each location decision is an expression of a business strategy, and inward development agencies succeed best when they can understand the process and predict those industries and functions for which they have a natural advantage. From this, government agencies can then design and implement policies and programs that build on and enhance these advantages to improve competitive advantage.

Genesis for Location Decisions

The need for a new location decision or investment may stem from:

- The need to gain access to more resources such as access to raw materials or energy sources;
- A desire to enter new markets and increase revenue potential, such as when a firm establishes new sales offices in a new region;
- Requirements for additional assets, primarily talent base, specialized infrastructure, or knowledge networks; and
- A requirement to improve efficiency through reduction of costs, which include but are not limited to labor, utility, tax, and regulatory environments.

In most cases, the drivers of foreign investment decisions are complex and will likely include a mix of these factors. Different industries and activities will also likely base their location decisions on different criteria. As an example, companies involved in software development or biotech research may seek international expansion mainly as a way to gain access to additional talent and innovation networks. Similarly, some low-margin manufacturers will see cost competitiveness as their principal motive to invest overseas.

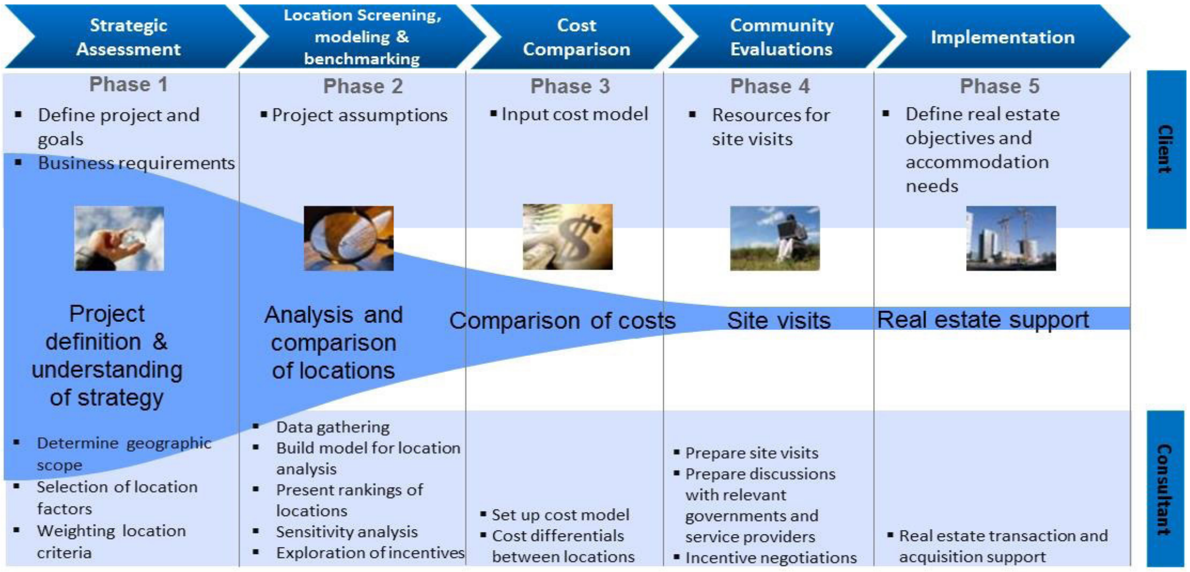
The Location Selection Process
Location selection process is the progressive narrowing of national, regional, and site options, finally resulting in a very small set of finalists from which the eventual decision is made.

Figure 29 illustrates a typical location decision process. It begins with a strategic assessment, which fully defines the objectives of the investment and identifies and assigns different weights to the main criteria for evaluating different locations. This process may also establish minimum or maximum threshold values for different criteria such as distance from a seaport or airport or the cost of labor or electricity.

Such critical thresholds may include – but are not limited to – critical mass or size of the local economy, presence or absence of key infrastructure, political stability and risk, proximity to key markets, general cost base and high-quality regulatory environment.

Once the basic universe of candidates is established, the company then evaluates the various location options by collecting data on costs, risks, opportunities, and other variable factors that influence the relative attractiveness of and one country, region, or – eventually – site. Options shown to have fatal flaws or other general competitive weaknesses are dropped, and the list becomes shorter as analysis progresses.

Figure 29: Typical location process



Source: Investment Consulting Associates – ICA (2016)

Once the list has been reduced to a manageable number of options, the company is also able to produce discounted cash-flow models to estimate the relative costs for investing and operating in each of the remaining regions and/or sites. Such costs include start-up costs for facility, infrastructure, permitting and recruiting and also include ongoing costs for labor, facility operations, and taxation.

At this point, it becomes necessary to explore the nation, region, or site more directly, and the company will typically plan for in-market investigations in combination with site visits to obtain the data required to quantify and verify expenditures like land prices and building costs. Among other items, these will include discussions with similar employers to examine the labor pool, meetings with local real estate providers to discuss facility or site options, and government officials to discuss regulatory and incentive matters.

It is only at this point that final negotiations will begin for real estate, government assistance and other matters.

It is important to note that much of this stepwise process takes place using data that is commonly available in commercial databases and on the internet. As such, nations and regions that wish to aggressively court FDI must examine this process well to understand their strengths and weaknesses so as to respond effectively to inquiries and also to enhance their ability to support the kinds of investment they wish to attract.

Similarly, FDI outreach, tax, regulatory, and incentive policies all have an impact on investment decisions, and all are entirely within the power of nations and regions to change for specific targets. A strong understanding of the motives and process above allow for more thoughtful policy development.

Trends in Investment Policies: Liberalization and Restrictiveness

As described above, critical determinants in the location selection process include, amongst others, political stability and risk and a high-quality regulatory environment. As pointed out in the competitiveness assessment of the previous chapter, the vast majority of countries expect significant improvements in their FDI policies – and thus the quality of their regulatory environment – by 2020. On average, based on all 82 economies for which data are available, a country is expected to have experienced an average increase of 0.18 regarding its FDI policy competitiveness score by 2020 (against an average increase of 0.26 for its general competitiveness). This can be attributed to the fact that many countries are progressively liberalizing and reforming their investment policies targeted at foreign investors.

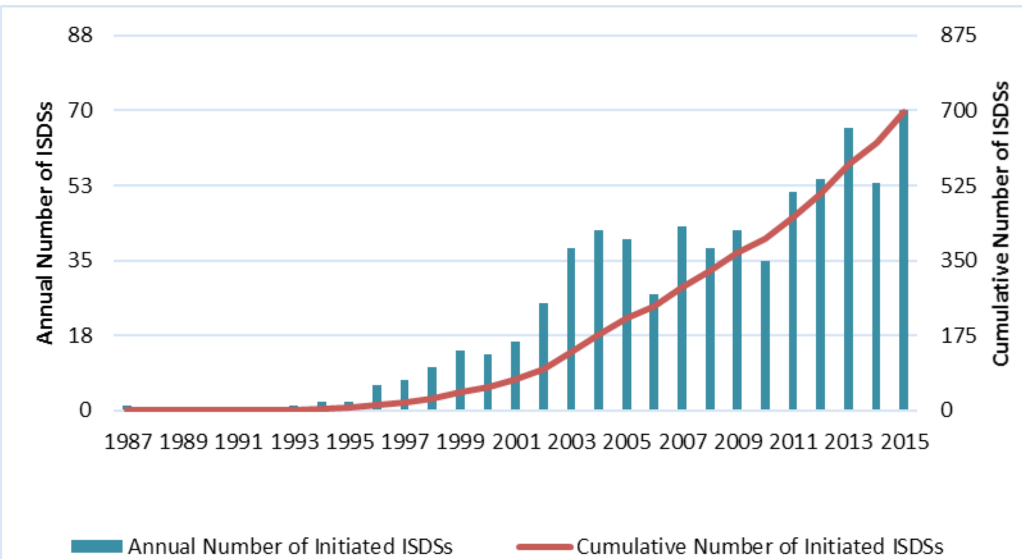
Frequently, liberalization and reforms of such policies can be seen in the light of wider national economic and political reforms not particularly targeted at foreign investors. This holds true for countries such as Argentina, Italy, Sri Lanka, Japan, Spain, Japan, Iran and Ukraine, which according to the EIU statistics are expected to make the greatest improvements of their general business environment and, thus, for foreign investors. In addition, some countries are expected to improve, liberalize and reform their investment policies specifically orientated at foreign investors and FDI (e.g. Mexico, Egypt and Qatar), thereby improving their general business climate.

Based on the EIU data explored in the previous chapter, out of the 82 economies, only eight countries are expected to become less competitive when it comes to their investment policies specifically related to FDI. Their scores for competitiveness of FDI policies are expected to drop in the next period up to 2020 as compared to the last years (2011-2015). Some of these countries are expected to be confronted with a weaker general business environment, due to, for instance, geopolitical tensions and implementing business-unfriendly policies, which in turn also affects the competitiveness for foreign investors (e.g. Libya, Venezuela, China and Russia). For other countries a specific cause related to FDI policies is accepted to undermine the competitiveness for foreign investors (e.g. Poland, Greece, Singapore and Australia).

Nevertheless, the general picture of investment policies towards FDI seems to be very positive as 30 economies (mostly emerging and developing countries) are expected to offer a more liberal and efficient FDI policy framework by 2020 whilst another 44 economies (mostly developed and industrialized countries) are expected to remain more or less stable with already relatively strong FDI policy frameworks. However, this optimism may be deceptive as an improved policy framework does not necessarily imply a more transparent, more efficient and less bureaucratic policy environment open to foreign investors in actuality. Even if countries expect their investment climates to improve, it doesn't mean they will.

Indeed, as highlighted in the previous section, the overall investment policy and regulatory framework play a crucial role in attracting FDI. Many corporates today emphasize that some policies have become more complex, less transparent and that the stability and predictability of investment policies is crucial for their investment projects. Unexpected changes in policy and regulatory frameworks may adversely affect investors' existing interests and may encourage the investor to bring their matter (and host government) to an arbitral tribunal based on ISDS mechanisms pursuant to International Investment Agreements (IIAs).

Figure 30: Annual and cumulative number of initiated ISDSs, 1987-2015



Source: Data derived from UNCTAD Investment Policy Hub's Investment Dispute Settlement Navigator Date range: 1987-2015

UNCTAD's Investment Policy Hub constructed a database on ISDSs. Its "Investment Dispute Settlement Navigator" database has recorded information about publicly known IIA-based ISDS proceedings since 1987. Public sources through which this information is collected include official documents provided by administering institutions as well as specialized reporting services. Despite the fact that the database is updated on a bi-annual basis, it certainly is not exhaustive as some proceedings remain confidential. Nevertheless, it functions as a good point-of-departure for analyzing ISDS trends over the last decades as it covers information such as year of initiation, respondent country, home country of claimant, economic sector, administering institution, status of proceeding and outcome(s), applicable treaty and follow-on proceedings.[103]

In 2015, investors initiated 70[104] such ISDSs, a record-high. This implies the total number of known ISDSs pursuant to IIAs from 1987 onwards equals 696 (as of the 1st of January, 2016). The annual averages observed in the time frame spanning from 2003 to 2010 are considerably lower (average of 38 initiated claims) than the annual averages from 2011 onwards (average of 59 initiated claims), where only 2014 showed a decreasing average number of ISDS claims vis-à-vis the previous year. These numbers confirm that foreign investors increasingly make use of ISDS provisions incorporated in IIAs. To put these numbers in perspective, a total of 409 ISDS claims have been registered out of 108,056 FDI projects from 2008 to 2015. On average, this implies one company out of 264 companies undertaking FDI has filed an ISDS claim. It should be noted these numbers are most likely much higher as most of such IIAs allow for fully confidential arbitration.105

As of 2015, a total of 108 governments have been respondent to one or multiple ISDS claims. This includes 84 governments of developing and emerging economies, which together account for 70.3% (or 489) of all 696 ISDS claims. Exploring the top 15 of governments that most frequently received ISDS claims demonstrates the bias towards developing and emerging economies. ISDS have been most often initiated against governments in Latin America (e.g. Argentina, Venezuela, Mexico, Ecuador and Bolivia) former CIS countries (e.g. Russia, Ukraine and Kazakhstan) as well as Egypt and India.

103 UNCTAD Investment Policy Hub (2016a)
104 UNCTAD Investment Policy Hub (2016b)
105 UNCTAD (2015b)

However, the share of cases claimed against governments of developed and industrialized economies is on the rise.[106] For instance, over 2015, Spain as respondent state received the most new ISDS claims, 15 in total, followed by Italy (four) Czech Republic (three), Canada and Romania (both two) and Bulgaria (one). Austria received its first known ISDS claim[107] in 2015. Indeed, the top 15 of respondent countries also confirms the position of Czech Republic, Spain, Canada and Poland as developed countries but which frequently received ISDS claims.

On the other hand, investors that filed ISDS claims originate nearly exclusively from developed and industrialized countries. Of the 696 known ISDS claims, 83.0% (or 578) have been initiated by investors from developed and industrialized countries. The strong presence of ISDS initiating investors with home countries in North America and the EU-28 (particularly Netherlands, UK and Germany) and the dominance of developing and emerging economies in the top 15 of respondent countries indicates that ISDS claims are often initiated by investors from countries with solid legal, institutional and regulatory frameworks to protect their interests in countries where such frameworks are lacking.

As evidence will prove, however, more cases are decided in favor of respondent governments than investors. It may be assumed MNEs can afford to hire highly-skilled lawyers and expect they can navigate their own legal systems better than a foreign government (particularly of a developing country) and that courts in the plaintiffs' countries may look more favorably on the MNE than the respondent government. The reality is different as disproportionately more cases are decided in favor of the respondent government.

Table 29: Top-15 ISDSs respondent countries (left) and home countries of investors (right)

Respondent Country				Home Country		
Rank	Country	Rel.		Rank	Country	Rel.
1.	Argentina	8.5%		1.	US	19.8%
2.	Venezuela	5.2%		2.	Netherlands	11.5%
3.	Czech Republic	4.7%		3.	UK	8.5%
4.	Spain	4.2%		4.	Germany	7.3%
5.	Egypt	3.7%		5.	Canada	5.6%
6.	Canada	3.6%		6.	France	5.5%
7.	Mexico	3.3%		7.	Spain	4.9%
8.	Ecuador	3.2%		8.	Luxembourg	4.5%
9.	Russia	3.0%		9.	Italy	4.3%
10.	Poland	2.9%		10.	Switzerland	3.3%
11.	Ukraine	2.7%		11.	Turkey	2.7%
12.	India	2.4%		12.	Cyprus	2.6%
13.	Kazakhstan	2.2%		13.	Belgium	2.2%
14.	US	2.2%		14.	Austria	2.0%
15.	Bolivia	1.9%		15.	Greece	1.7%

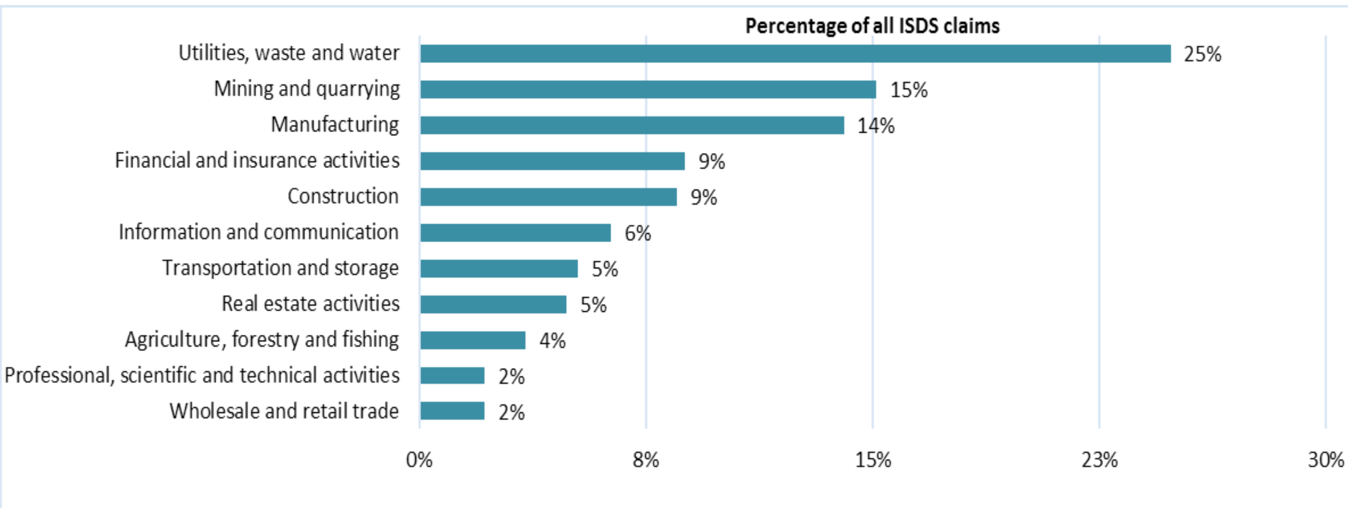
Source: Data derived from UNCTAD Investment Policy Hub's Investment Dispute Settlement Navigator Date range: 1987-2015

106 UNCTAD (2015c)

107 Concerns claims arising out of criminal investigations brought against claimant's investment, Meinl Bank, and its management during the eight years preceding the claim, allegedly denying the claimant justice and negatively impacting the value of its investment.

The number of ISDS filed also differs per industry. Nearly one out of four ISDS claims are filed within the utilities, waste and water services industry, followed by mining and quarrying (15.1% or 112 claims) and manufacturing (14.1% or 104 claims), mostly of food, chemicals, basic metals and minerals. This is followed by other services sectors such as the financial and insurance industry (8.8% or 65 claims), construction (8.5% or 63 claims) and information and communication (6.4% or 47 claims). In all, it seems most of the claims relate to industries in which natural resources and raw materials and services related to these play a role. Such industries that typically more polluting or more dangerous to public health and worker safety than other industries and are thus more vulnerable to disputes between the investor and the government.

Figure 31: Top-10 ISDS sectors



Source: Data derived from UNCTAD Investment Policy Hub's Investment Dispute Settlement Navigator Date range: 1987-2015

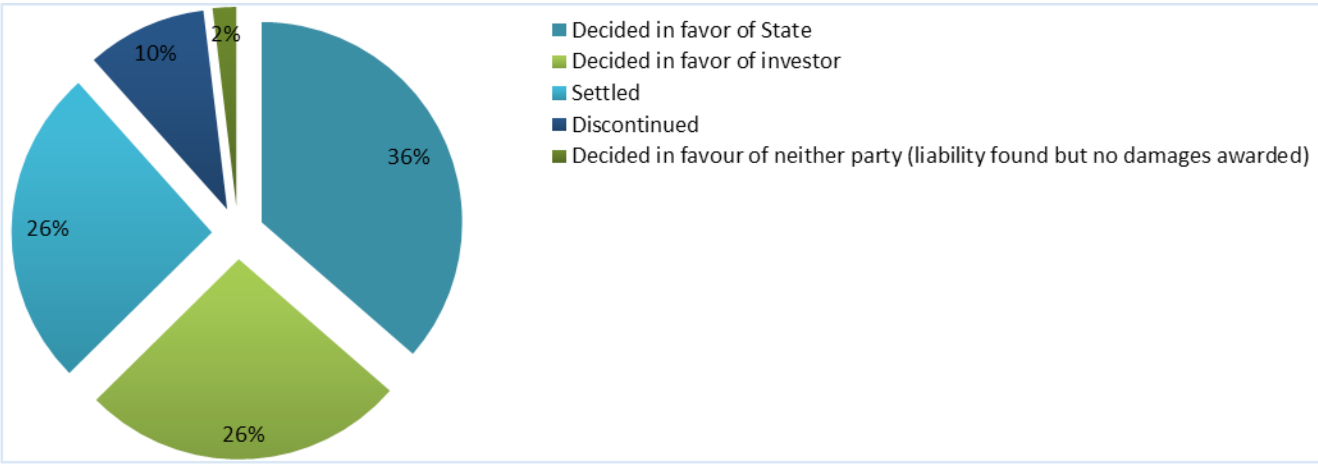
Evaluating the IIAs under which the ISDSs have been brought may also provide an insight into which and where FDI policies need to be improved, implemented and/or better adhered to. Such applicable IIAs may be split into Bilateral Investment Treaties (BITs) and other IIAs such as Regional Trade Agreements (RTAs) and Free Trade Agreements (FTAs). Most of the ISDS claims have been initiated under the Energy Charter Treaty (12.5% or 87), followed by NAFTA (56 or 8.1%). The large number of claims initiated under the Energy Charter Treaty reflects the strong orientation of ISDS claims within the utilities, waste and water services industry. The position of Canada and Mexico, and, to a lesser extent the US, as governments receiving relatively large number of ISDS claims, is verified by the emergence of NAFTA as one of IIAs under which many ISDSs have been filed.

The Energy Charter Treaty and NAFTA are followed by a number of BITs, particularly the 1991 Argentina – US BIT (2.9% or 20), the 1993 Ecuador – US BIT (2.2% or 15), the Netherlands – Venezuela BIT (1.9% or 13) and the Argentina – Spain BIT (1.4% or 10). This demonstrates the weak position of a number of Latin American countries and Spain.

Finally, under these IIAs, 442 ISDSs (or 63.5%) have been concluded whilst the remaining ISDSs are still pending. In 161 cases (or 36.4% of the concluded claims), the arbitrary outcome was in favor of the government (i.e. claim has been dismissed either on jurisdictional grounds or on the merits[108]) against a total of 116 cases (or 26.2%) that were decided in favor of the investor (i.e. received monetary compensation). Another quarter of the cases were settled.

108 UNCTAD (2015c)

Figure 32: Outcome of concluded ISDSs



Source: Data derived from UNCTAD Investment Policy Hub's Investment Dispute Settlement Navigator Date range: 1987-2015

Incentives and Free Zones to Attract FDI

One of the areas where changes in the legal and regulatory framework initiated by the host government may directly affect investors' interests, potentially leading to ISDS claims, concerns the provision of incentives and preferential treatment within free zones. Policy reforms and amendments affecting eligibility criteria, performance requirements and, especially, agreed-on benefits of incentive programs (e.g. abolishment of reduced corporate income tax rate, lower grant amounts and/or restrictions on the duration of tax holidays without sunset clauses affecting existing incentive recipients) often form the cause of disputes between investors and host governments.[109]

As an investment policy frequently exploited by governments of developing and emerging countries to attract FDI, investment incentives and free zones are heavily debated. The economic recession of the last years of the first decade of the 21st century has intensified the public debate among politicians, policy-makers, press, and taxpayers on incentives as a proper tool in investment policy. Policy-makers concerned with economic development across the globe put more pressure on the use of incentives to attract FDI and other forms of investment in an attempt to re-boost their economies to offset the impact of the economic recession. Similarly, both MNEs and domestic firms increasingly appreciate incentives as a means to reduce operating costs necessary to overcome the damage caused by the economic and financial crises.

Driven by budgetary constraints, more and more politicians and policy-makers (e.g. Ministries of Finance and Treasuries) look to closely evaluate to what extent their incentive regimes have effectively contributed to economic development. In other cases, incentives are curtailed and replaced with other (fiscal) advantages. Vietnam and Cambodia have phased out their free zone incentives in favor of lower corporate income taxes and incentives like capital allowances. They nonetheless remain among the most attractive destinations investors in industries like garments and electronics assembly. Due to the attention of the press, the practice of awarding tax credits, cash grants and loans by governments to attract FDI and other forms of investment has also come under increased scrutiny by tax payers.

109 A recent example includes a number of claims arising out of a series of energy reforms undertaken by the Spanish Government affecting the renewables sector, including a 7% tax on power generators' revenues and a reduction in subsidies for renewable energy producers whilst another example concerns claims arising out of a series of decrees issued by the Italian government to cut tariff incentives for some solar power projects.

Incentive Trends across Developing and Emerging Economies

This section seeks to briefly explore recent trends in terms of incentives in selected developing and emerging economies. It explores data derived from IncentivesMonitor.com. This database tracks information on all major types of financial and fiscal incentives awarded to (foreign and domestic) corporate investors establishing new operations or expanding an existing operation in all industries and monitors active associated incentive programs. Requirements for incentive packages to be incorporated in the database involve minimums for job creation and amount of capital investment.[110]

Data included, amongst others, covers the following:

- Financial value of the incentive packages, capital investment;
- Number of newly created jobs;
- Economic industry and business activity;
- Source and destination market;
- Incentive program;
- Awarding regulatory body or authority; and
- Motive for incentive and nationality of investor.

Corporate, media and IPA sources in multiple languages are screened on a daily basis to identify relevant incentive packages. Using this data allows for more transparency, straightforward benchmarking and optimization of incentive regimes. This database is not exhaustive in that it does not provide 100% coverage but, just as with UNCTAD's database on ISDSs, it functions as a solid point-of-departure to identify incentive trends.

In BRICS approaches to incentives practices, it is clear Brazil leads in terms of number of incentives (i.e. 490 out of the 792 incentives by BRICS countries) awarded over the last five years (2010-2015), followed on a distance by India, South Africa, China and Russia. Brazil also spent the largest budget on incentives, equaling US$19.11 bln. An average incentive package in Brazil equaled $143.7 mln against just $7.9 mln for an average incentive package in South Africa. Not surprisingly given the large number of incentives it awarded, Brazil attracted the largest amount of capex (US$105.88 bln) and jobs (197,090). These incentives have been awarded to both foreign as well as domestic investors.

Table 30: Key incentive figures across BRICS, 2010-2015

	Total Number of Incentives	Total Value of Incentives (US$ bln)	Average Incentive Value (US$ mln)	Total Capex (US$ billion)	Average Capex (US$ mln)	Total Job Creation	Average Job Creation
Brazil	490	$19.11	$143.7	$105.88	$243.4	197,090	402
China	53	$0.56	$11.6	$2.69	$384.6	320	6
India	161	$3.21	$30.3	$37.29	$237.5	56,037	348
Russia	7	N/A	N/A	$0.04	$12.8	942	135
South Africa	81	$0.59	$7.9	$7.36	$100.8	10,856	134

Source: IncentivesMonitor.com Date range: 2010-2015

Comparing incentives that have been awarded to domestic or foreign investors reveals that South Africa's focus is most aimed at FDI, as roughly one out of three incentives South Africa awarded were to foreign investors as opposed to – for example – only one out of 10 in China (Russia only awarded a limited number of seven incentives of which three were to FDI projects). Despite the reporting limitations for China and Russia, the data show that the average incentive packages awarded to foreign investors are considerably higher in Brazil and India compared to domestic investors, whilst the difference in South

Africa is more or less negligible.

However, across all BRICS, the average number of jobs created by foreign investors is much higher than the number of jobs created by domestic investors. The same is true for the average value of capex attracted by incentives, except for Russia and South Africa, where domestic investors who received incentives invested on average larger amounts of capital vis-à-vis foreign investors.

Table 31: Key incentive figures across BRICS and per investor nationality (i.e. foreign or domestic), 2010-2015

	Number of Incentives		Average Incentive Value (US$ mln)		Average Capex (US$ mln)		Average Job Creation	
	Foreign	Domestic	Foreign	Domestic	Foreign	Domestic	Foreign	Domestic
Brazil	95	395	$377.9	$81.2	$548.7	$166.0	660	340
China	5	48	N/A	$11.6	$557.5	$154.1	64	N/A
India	29	132	$300.1	$22.5	$526.6	$177.5	555	303
Russia	4	3	N/A	N/a	$10.4	$17.6	151	113
South Africa	26	55	$6.6	$8.6	$64.7	$119.6	150	126

Source: IncentivesMonitor.com Date range: 2010-2015

Among the Next-11 countries, IncentivesMonitor.com has only registered incentives for Indonesia, Mexico, Philippines, South Korea, Turkey and Vietnam. As such, another number of developing and emerging economies (e.g. Argentina, Chile, Morocco and Thailand) have been selected to complement the picture of incentive trends across these countries.

The main provider of incentives in absolute numbers within this selection of countries is Thailand, followed by Argentina and Mexico. Argentina and Mexico have allocated the largest budgets to incentives, with US$1.47 bln and US$1.22 bln, respectively.

Except for Chile and Morocco, the average incentive package equals between US$11.6 mln and US$14.3 mln and seems rather consistent across the countries and is significantly lower than the average incentive values in the BRICS countries. Surprisingly, Vietnam has attracted the largest amount of capital investment (US$32.88 bln), whilst Indonesia has attracted a great amount of capital (US$16.57 bln) with only 11 incentives. This is also reflected by the high average capex values per awarded incentive for Indonesia and Vietnam and can be related to a number of large capital-investment projects in the electronics and basic materials industries in both countries. As opposed to Indonesia, these projects have also contributed to the high number of newly created jobs per awarded incentive in Vietnam (3,739 jobs). Among the Next-11 countries, Mexico has attracted a relatively large number of jobs by means of its incentives as well, nearly exclusively in electronics and automotive manufacturing. The same applies to Morocco. Clearly, these strong performances may not exclusively be related to incentives policies but are contingent on a wide range of factors (e.g. market access through NAFTA via Mexico).

Table 32: Key incentive figures across select Next-11 countries and other emerging economies, 2010-2015

	Total Number of Incentives	Total Value of Incentives (US$ mln)	Average Incentive Value (US$ mln)	Total Capex (US$ bln)	Average Capex (US$ mln)	Total Job Creation	Average Job Creation
Argentina	159	$1,474.6	$11.6	$6.38	$56.4	13,371	84
Chile	28	$27.3	$1.1	$0.12	$4.3	371	13
Indonesia	11	N/A	N/A	$16.57	$1,506.1	1,680	153
Mexico	158	$1,222.5	$13.3	$19.00	$154.4	89,909	569
Morocco	32	$8.51	$0.9	$3.72	$31.0	32,289	1,009
Philippines	38	N/A	N/A	$2.89	$76.0	15,884	418
South Korea	38	N/A	N/A	$6.82	$184.4	3630	96
Thailand	426	N/A	N/A	$18.13	$42.6	55,945	131
Turkey	11	$28.6	$14.3	$1.08	$108.0	1,637	149
Vietnam	19	$14.1	$14.1	$32.88	$1,730.4	71,050	3,739

Source: IncentivesMonitor.com Date range: 2010-2015

Incentives and Free Zones as Investment Policies

As described, the global recession affected the debate concerning investment incentives. Another consequence is that the global competition for has become fiercer as the post-crisis volume of FDI has declined. In a response to the lower post-crisis levels of demand, MNEs started to consolidate their global value chains and withdraw or postpone investment. The lower levels of global FDI have put more pressure on policy-makers granting incentives as tool to successfully capture their portion of FDI.

Apart from the global recession, a number of other developments have altered the global context and effectiveness of incentives and free zones. These developments challenge the classical provision of fiscal incentives and emphasis on customs relief, which both are a key feature of free zones. Among them is the proliferation of bilateral and RTAs, which has resulted in a further intensification of regional trade blocks.[111] Regional integration provides opportunities to its member countries for FDI (e.g. functioning as export platforms, allowing regional supply chains and economies of scale) but have posed serious challenges to classic incentives and free zones. For instance, under some RTAs, restrictive rules of origin apply for products from free zones, which as result may be limited or excluded from (duty-free) entry into the RTA area. This may affect companies based in free zones as the choice for a particular free zone may have be based on the intension to use the free zone as export platform the region. Due to such restrictive rules, the regional coverage to which products may be exported from the free zone has reduced considerably.

Another development affecting the way incentives have traditionally been awarded concerns the World Trade Organization's (WTO) Agreement on Subsidies and Countervailing Measures (SCM). This agreement has been designed to phase out incentives contingent on export performance and use of local content. Just as with some RTAs, the WTO's SCM may implement some temporary exceptions to allow certain countries to implement different incentive regimes to consider country-specific circumstances.

111 Farole, T. (2011)

The largest challenge is that existing incentive regimes may not be compatible with the incentive policy of the RTA. The case of Mexico's "Maquiladoras" (a type of factory-based export processing free zone) is illustrative. After Mexico joined the NAFTA, a number of customs incentives awarded to companies located in its Maquiladoras had to be terminated to fully comply with the NAFTA's requirements. Under NAFTA, the strict export requirements for Maquiladora companies (i.e. prohibition of products processed in the Maquiladoras to enter the domestic Mexican market) had to be waived.[112] Import duty exemptions granted to companies exporting from the Maquiladoras to Canada and the US (90% of all exports from the Maquiladoras) were no longer allowed according to NAFTA and had to be phased out.[113] This was one of the unique competitive advantages for firms locating in the Maquiladoras, importing non-NAFTA inputs and exporting the final products for final consumption into the US market. Of course, NAFTA market access outweighed the incentives under the Maquiladoras regime and resulted in much more FDI into Mexico by US and Canadian companies than in the situation prior to NAFTA.

Thus, in an attempt to prevent firms from locating from the Maquiladoras to Southeast Asia and China, the Mexican government implemented a customized tariff reduction program called the Sectoral Promotion Program (PROSEC). This program consisted of most-favored nation[114] (MFN) reduced tariffs for registered companies on over 6,000 components and input not produced domestically across 22 industries (e.g. electronics, chemicals and automotive). The difference is that these preferential tariffs are not based upon export requirements and thus apply equally to exporters and non-exporters and provides a good example of a shift from export-orientated incentives to sector-based incentives. This situation is a win- win situation for Mexico as well as for the foreign and Mexican companies investing there.

Combined, these economic, political and policy developments have affected the traditional way in which incentives have been awarded. National incentive regimes and free zones need to comply with these international measures. The implication is that the options to differentiate by providing incentives have become somewhat limited and incentive packages offered across regions have converged as countries try to match one another. To remain, competitive, a number of countries (e.g. the case of Vietnam and Cambodia) as well as EU member states have moved away from the provision of tax incentives towards introducing lower general taxes and non-fiscal incentives.

In search for diversifying their business environment and creating unique competitive advantages, governments and free zones need to move away from overgenerous fiscal incentives. These low cost and low tax business environment strategies are easy to replicate and do not equip governments with a distinct source of competitiveness as they also do not cater to the needs of investors. Tax holidays and fiscal incentives may not directly address the needs of investors in that their investment is not expected to make profit until year three or four of a 10-year tax exemption or the investment is not a profit center at all. In addition, tax exemptions offered in one country may simply increase a company's tax liability in the home country, subsidizing the treasury of the (generally wealthier) home country of the investor.

This does not imply governments should not provide incentives to their investors. Incentives and free zones as policy instruments continue to be appreciated by investors as means to mitigate some institutional risks (e.g. procedures for setting up a business) through their one-stop shop services and streamlined and simplified administrative procedures in the broadest sense, whilst financial and fiscal incentives could compensate for the more operational risks and could support companies with investments relating to upgrading, diversifying and expansion – both FDI as well as other forms of investment. Policy-makers need to understand, however, that their investment decision is largely driven by factors other than incentives and free zones as Textbox 5.1 explains.

112 Farole, T. & Akinci, G. (2011)

113 Engman, M., Onodera, O. & Pinali, E. (2007)

114 WTO (2016)

Textbox 5.1: How do companies perceive incentives?

Among the different entry and investment strategies (e.g. exports, licensing, franchising, joint ventures and M&As) a firm has at its disposal, FDI is certainly one of the most risky as FDI is directly exposed to the conditions of the business and investment climate of the host country. Therefore, a company will undertake a thorough assessment of the risks associated with potential investment locations for its FDI project. This assessment, frequently referred to as the "location-decision process", includes a number of phases in which different risks and location criteria are evaluated according to the needs of the FDI project.

Institutional risks – risk related to the political and regulatory environment of the host country – are usually considered in the initial phase. These fundamentals need to be in place for basically every FDI project, regardless of their industry, activity or strategy and concerns items as political stability, rule of law, quality of governance, rules and regulations and transparency and predictability of policies. Certain exceptions apply, particularly in the case of natural resources that are scarce and only available in a limited number of locations. Also, companies may perceive and tolerate the institutional risks in certain countries (e.g. China) differently than similar risk levels in other countries.

If these fundamentals are acceptable and the basic investment climate is sufficient to mitigate institutional risks, the focus shifts to more industry-specific conditions or operational risks. Such risks are related to industry-specific operations of the company (e.g. stable supply of energy, availability of raw materials and natural resources and/or a skilled labor force) and reflect the very motive behind the FDI project. Motives may include (a combination of) resource-seeking, market-seeking, strategic asset-seeking and efficiency-seeking FDI, with each motive putting more emphasis on a distinguished set of location criteria.

Once the fundamentals and industry-specific location conditions have been met at a particular investment location, the final location decision for a FDI project is determined by so-called "business facilitation" drivers. Examples include fiscal and financial incentives, support from the government and assistance from IPAs. At this stage, a number of similarly attractive investment locations remain. Small actions and gestures such as incentives can make the difference to tilt the final investment decision in favor of one particular location. It is thus only in this later stage where incentives and free zones appear on the horizon of corporate investors and multinationals undertaking FDI.

The developments in incentives and changed global context also affect the design of incentive regimes. Clearly, incentive frameworks must be designed in response to the evolving global market and the actual needs of investors to cater to their specific requirements and mitigate any remaining institutional and operational risks. This involves a shift from competing on the quantity of incentives to the quality of incentives. From a government perspective, in order to enhance the transparency, accountability and credibility of their incentive regimes, it is critical to incorporate monitoring and evaluation mechanisms that track the overall performance of the incentive program as well as the compliance of individual incentive recipients.

Aligning incentives to the evolving global market and actual needs

A firm's receptiveness to incentives will be most optimal in case the incentives offered do exactly match with their current needs and requirements. This depends on at which stage of the life-cycle the company is positioned as well as the motive for undertaking the investment. When it comes to the life cycle of the company, the need for capital is highest for new or "greenfield" FDI projects as the construction of a new facility, equipment, tools and the first salaries of employees during the initial phase of the investment need to be financed. As such, incentives such as cash grants and investment allowances that do support companies with funding these vast capital expenditures are highly appreciated. Tax exemptions and holidays – popular across many governments in emerging markets – are not attractive in this stage as such investments are usually not profitable in the first years of operation. Furthermore, investments may not have been initiated to make profit (e.g. manufacturing and distribution facilities are often "cost centers" within the corporate structure) or are profitable from the start and may therefore not require support for setting up their operation.

During the growth phase of the company, fiscal incentives may be more appropriate to facilitate further expansion of existing investments that are up and running and make profit. Incentives in this stage of the life-cycle should support skill development of (new) staff and upgrading. Examples include the deduction of training and research and development

(R&D) expenditures.

Aligning incentives with the investment motive is also critical. For instance, resource-seeking investment is less receptive to incentives as the investment location for such investment is mostly determined by the scarcity of a particular raw material or natural resource. On the other hand, incentives are more valued by companies undertaking market-seeking and efficiency-seeking investment. Their "playing field" of potential locations covers many more options compared to resource-seeking investment. Incentives may support the investor and therefore tip the final location decision in favor of one location.

Incentive-based competition on quality rather than quantity

Another element of next generation incentive regimes is a move away from the traditional focus on generous (fiscal) incentives towards non-fiscal "soft" incentives. Providing overgenerous fiscal incentives to compensate for weaknesses in the investment climate (e.g. excessive bureaucracy, unskilled labor force and poor infrastructure) is no long-term solution, particularly given the fact that incentive programs have become increasingly uniform – and thus uncompetitive – across the globe.[115]

As such, incentives are increasingly targeted to directly improve the quality of the investment climate rather than make up for a specific lack of competitiveness. This relates to a combination of administrative incentives (e.g. one-stop shop services, expedited administrative procedures and further regulatory relief) and performance-based incentives customized to provide business development services (e.g. skills development, technical services, local linkages, R&D and SME development). Despite the fact that governments are challenged with developing and implementing cutting-edge incentives, this actually provides them with the opportunity to distinguish their investment climate through the provision of innovative, diverse and unique incentives creating a competitive business environment.

Monitoring and evaluating the performance

The call for proper M&E mechanisms is not a new phenomenon. Due to the developments described earlier, the need for M&E mechanisms is greater than ever given the public debate on incentives. Few incentive programs explicitly monitor, measure and evaluate to what extent their recipients comply with requirements on which incentives have been granted. The lack of such data limits any attempt to produce a comprehensive evaluation of the incentive regime's contribution to economic development.

In order to overcome this data gap, reporting provisions should be incorporated into incentive regimes and it be mandatory for recipients to comply. Reporting standards and audit reviews require a frequent (e.g. annually or quarterly) submission of detailed company data on the investment project and its socio-economic performance. In order to gauge the return on any investment that has been incentivized, key performance indicators (KPIs) need to be defined and incorporated. Without such metrics, it is impossible to determine program effectiveness and compare projects for resources within confined budgets. A balance between the (additional) administrative burden imposed on the incentive beneficiaries on the one hand and the ability to monitor the ongoing compliance to pre-defined eligibility criteria on the other hand is critical.

Proper M&E mechanisms do not stop at reporting standards and audit reviews. To be able to enforce compliance with eligibility requirements, so-called "clawback" provisions should be part of the incentive regime. This allows governments to require the incentive recipient to refund) the awarded incentive amount (or part of it) in case pre-agreed requirements have not been achieved. Sunset clauses should be incorporated to ensure incentive regimes do not have an eternal nature and can be adjusted or even – in case of bad performance – terminated.

In turn, if properly collected, these data will provide governments the opportunity to thoroughly evaluate the effectiveness of the incentive program, the return on investment and its contribution to socio-economic development. The ultimate aim should be to demonstrate to taxpayers and constituents how public money is allocated and make them aware of the overall improvements being created by the incentive programs. This not only improves transparency but also enhances accountability and provides justification for the allocation of public money.

115 Akinci, G. & Crittle, J. (2008)

National and regional harmonization

Finally, reforming incentive regimes also provides opportunities to harmonize incentive frameworks on both a national[116] as well as on a regional[117] scale. Rationalizing incentives and corporate income tax policies on a country-wide basis prevents fierce incentives-based competition within a country and contributes to investors' predictability in the sense that the incentive regime is uniform across the country regardless of the exact location. RTAs do offer the opportunity for regional institutions to cooperate to harmonize national incentive regimes, implement regional incentive standards and administer awarded incentives. For instance, to promote uniformity in incentive regimes and achieve harmonization, member states of the EAC are to develop an operational manual on (incentives awarded within) Export Processing Zones (EPZs). Such initiatives have the ability to mitigate the situation of a "prisoner's dilemma", where countries are engaged in a "race-to-the-bottom" as they are forced to grant incentives because their neighboring countries offer incentives too. On a regional level, however, countries would be better off by collectively harmonizing and regulating incentives so to reduce the need to engage in incentives-based competition.

116 Akinci, G. & Crittle, J. (2008)

117 Woolfrey, S. (2013)

Chapter 6: Synopsis and Synthesis: Key Opportunities and Challenges for the Future

Capital investment around the globe continues in a dynamic fashion. Those jurisdictions that wish to participate actively in FDI must take note of the changing times and the changing modes of investment. The sections above outline many of the key factors. Following is a brief synopsis of key points and some suggested actions.

This Chapter concludes with highlighting the fact that the overall rate of FDI appears on its face to be slowing as well. This observation may be slightly distracting in that direct investment is still taking place, but attention must be paid to the changing context and NFIs. This change in how investment takes place is an important finding and suggests that changes should be made in how regions and countries pursue investment. Within the investment location-decision process, political and economic risks are seen as more salient drivers in locations decisions than ever. Stability and predictability - both in terms of the overall society and in its approach to working with MNEs - are increasingly seen as attractive options for inward investment. This is reflected by the challenges related to increased ISDSs. As such, for any jurisdictions, it is critical to provide a nurturing, stable, and predictable environment. These can be augmented by having proper investments in infrastructure, talent development, economic networks, and by effective promotion of the jurisdiction. Public policy towards taxation, clarity and predictability of permitting, and other regulation provides companies and other investors with assurances that their investment is in safe hands. Governments can handle this best by providing transparency in governance and fair and equitable taxation policies. Specifically looking at FDI, fruitful avenues for developing a next generation FDI policy include reflecting upon key FDI trends and positioning assets accordingly, creating means to capitalize on new methods of FDI, developing meaningful policy frameworks and continuously monitoring improvement.

Changing Nature and Levels of FDI

As is the case with all investment, the world FDI market is incredibly competitive. All countries and regions are engaged in some way with – and trying to attract – inward investment to enable better opportunities for economic sustainability. As such, any region looking to participate in FDI strategy must understand its own value proposition, and how that relates to the needs of the global economy.

The overall rate of FDI appears on its face to be slowing as well. Whether this is truly the case, or whether it is due to a changing nature of FDI – with the increasing importance of M&As and other forms of market entry – is both relevant, and also somewhat of a distraction. It is a distraction in that direct investment of some form is still taking place, and regions need to pay attention to it. However, this change in how investment takes place is an incredibly relevant finding, and suggests that changes are necessary in how regions and countries pursue this form of investment.

Effective inward IPAs are still critically important. These agencies need to be able to effectively tell the story of the country in the region, and to do so within the context of what individual industries and companies require. They need to dynamically adjust to changing circumstances and even to changing conversations. They need the tools to be able to understand the competitive landscape in real terms, and they need the resources to be able to change their offerings based upon the opportunities in front of them.

Similarly, IPAs, EDOs and trade agencies both need to work together. Trade can help find opportunities for matchmaking between domestic companies and international companies so that non-traditional FDI may also be enabled. These organizations are critical as the points of focus for where direct and indirect investment may find its genesis.

Shifting Drivers in FDI

Political and other risks are seen as much more of a salient driver in locations decisions currently than they have been in the recent past. Companies are very aware of both terrorism and safety issues as a threat to personnel as well as to overall business resiliency. This is not new.

However, companies making location and investment decisions now also see more generalized policy changes affecting their investment. National policy decisions may have an unsettling effect both on society as to overall business operations. These factors are being increasingly entered into location screening models and into the decision process overall. Regions and nations that are seen as being stable, welcoming, and predictable both in terms of their overall society and in their approach to working with corporations are increasingly seen as attractive options for inward investment.

As an example of this, liberalization and reforms of such policies can be seen in the light of wider national economic and political reforms not particularly targeted at foreign investors, but which do influence FDI. This holds true for countries such as Argentina, Italy, Sri Lanka, Japan, Spain, Japan, Iran and Ukraine, which according to the EIU statistics are expected to make the greatest improvements of their general business environment and, thus, for foreign investors. In addition, some countries are expected to improve, liberalize and reform their investment policies specifically oriented at foreign investors and FDI (e.g. Mexico, Egypt and Qatar), thereby improving their general business climate.

Based on the EIU data, out of the 82 economies, only eight countries are expected to become less competitive when it comes to their investment policies specifically related to FDI. Their scores for competitiveness of FDI policies are expected to drop in the next period up to 2020 as compared to the last few years (2011-2015). Some of these countries are expected to be confronted with a weaker general business environment, due to, for instance, geopolitical tensions and implementing business-unfriendly policies, which in turn also affects the competitiveness for foreign investors (e.g. Libya, Venezuela, China and Russia). For other countries a specific cause related to FDI policies is excepted to undermine the competitiveness for foreign investors (Poland, Greece, Singapore and Australia).

The Resulting Opportunity

As highlighted elsewhere in this report, the overall investment policy and regulatory framework play crucial roles in attracting FDI. Many corporates today emphasize that some policies have become more complex, less transparent and that, in fact, the stability and predictability of investment policies is crucial for their investment projects. Unexpected changes in policy and regulatory frameworks that may adversely affect investors' existing interests may lead the investor to bring the matter (and host government) to an arbitral tribunal based on ISDS mechanisms pursuant to International Investment Agreements IIAs.

The challenge – and resulting opportunity – for any jurisdiction that wishes to draw in new investment either through entrepreneurial activity, innovation, merger investment, or direct investment, must be in providing a nurturing, stable and predictable environment. These can be augmented by having proper investments in infrastructure, talent development, developing economic networks, and finally in promotion of the jurisdiction.

Public policy towards taxation, clarity and predictability of permitting, and other regulation provides companies and other investors with assurances that their investment is in safe hands. Governments can handle this best by providing transparency and governance, and fair and equitable taxation policies.

Beyond this, tax incentives may be used in a targeted and judicious manner to encourage the formation of economic networks for which there is already a reasonable basis, but which will benefit through the engagement of public sector investment. Incentives must be targeted to address particular business needs, such as talent attraction, talent development, or infrastructure provision. It is critically important that the incentive be usable by the company in its current business state. For example tax credits are only useful to those companies that would otherwise have a tax liability. Some jurisdictions have found ways of making incentives salable, making them further value in a secondary market, and positively impacting the jurisdictions relationship with multiple companies.

A Path Forward

The following areas may prove fruitful avenues for action in developing a next generation FDI policy:

- Remember the basics. Understand competitive strengths and weaknesses. By continuing to understand a jurisdictions ability to support needs for talent, infrastructure, regulation, and economic networks, jurisdiction of the motion agencies can best target their efforts and resources towards those industries and functions for which there is a best fit in the jurisdiction. This is basic due diligence, and must not be overlooked.
- Reflect upon key FDI trends and position assets accordingly. Whereas overall FDI activity is slowing, small number of world cities is responsible for the grand bulk of FDI projects, capex, and resulting jobs. Positioning promotion agency personnel in these source cities, with a full understanding of the industries that are likely to be active, and the strengths offered by the jurisdiction provide an efficient means for intercepting investment opportunities.
- Look for means to capitalize on new methods of FDI. Trend data suggests that traditional foreign direct investment is increasingly being augmented, with if not supplanted, by M&A activity. In this manner investors are able to enter markets while also acquiring the talent and corporate infrastructure that understands how to operate in the new location and make the most of the opportunity. To the extent that this method is an acceptable strategy for gaining inward investment, jurisdictions should play an active role in facilitating the development of networks and introductions that make such mergers and acquisitions possible.
- Develop meaningful policy frameworks. Since stability and predictability have become critical factors in location and investment decisions, jurisdictions must be brave enough to look inward to understand how their own policy frameworks either enable or inhibit investment decisions. Any policy that increases risk will be seen as a barrier to entry. Any policy that increases transparency and predictability will be seen to increase the chances for success and will help draw further attention to the region. This philosophy must be applied to policies for workforce movement, monetary policy, tax policy, land use regulation, incentives, and other areas that impact business operations and strategy.
- Continuous monitoring and improvement. As is suggested by the above recommendations, jurisdictions require new means of monitoring and adjustment as traditional measures of foreign direct investment may no longer adequately measure the activity of global investment. Only through direct engagement with the FDI community – both Direct and through M&A – can jurisdictions hope to fully understand their level of success and the areas which require improvement.

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Appendix A: List of Countries per World Region (UNCTAD)

The following tables provide an overview of the countries categorize under various regions used by UNCTAD in its World Investment Report and in Chapter 1 ("Global FDI Trends") of this Investment Report.

Region	Countries
Developed Economies	
Europe	Andorra; Austria; Belgium; Bulgaria; Croatia; Cyprus; Czech Republic; Denmark; Estonia; Finland; France; Germany; Greece; Hungary; Iceland; Ireland; Italy; Latvia; Liechtenstein; Lithuania; Luxembourg; Malta; Monaco; Netherlands; Norway; Poland; Portugal; Romania; San Marino; Slovakia; Slovenia; Spain; Sweden; Switzerland; UK
North America	Canada; US
Other Developed Economies	Australia; Bermuda; Israel; Japan; New Zealand
Developing Economies	
North Africa	Algeria; Egypt; Libya Morocco; South Sudan; Sudan; Tunisia
Sub-Saharan Africa	Angola; Benin; Botswana; Burkina Faso; Burundi; Cameroon; Cape Verde; Central African Republic; Chad; Comoros; Congo (DRC); Cote d'Ivoire (Ivory Coast); Djibouti; Equatorial Guinea; Eritrea; Ethiopia; Gabon; Gambia; Ghana; Guinea; Guinea Bissau; Kenya; Lesotho; Liberia; Madagascar; Malawi; Mali; Mauritania; Mauritius; Mozambique; Namibia; Niger; Nigeria; Republic of the Congo; Rwanda; Sao Tome and Principe; Senegal; Seychelles; Sierra Leone; Somalia; South Africa; Swaziland; Togo; Uganda; United Republic of Tanzania; Zambia; Zimbabwe
East Asia	China; Hong Kong, China; Korea, Democratic People's Republic of; Korea, Republic of; Macao, China; Mongolia; Taiwan Province of China
South-East Asia	Brunei Darussalam; Cambodia; Indonesia; Lao People's Democratic Republic; Malaysia; Myanmar; Philippines; Singapore; Thailand; Timor-Leste; Vietnam
South Asia	Afghanistan; Bangladesh; Bhutan; India; Iran, Islamic Republic of; Maldives; Nepal; Pakistan; Sri Lanka
West Asia	Bahrain; Iraq; Jordan; Kuwait; Lebanon; Oman; Qatar; Saudi Arabia; State of Palestine; Syrian Arab Republic; Turkey; UAE; Yemen
South America	Argentina; Bolivia, Plurinational State of; Brazil; Chile; Colombia; Ecuador; Falkland Islands (Malvinas); Guyana; Paraguay; Peru; Suriname; Uruguay; Venezuela, Bolivarian Republic of
Central America & Caribbean	Anguilla; Antigua and Barbuda; Aruba; Bahamas; Barbados; Belize; Costa Rica; Curacao; Dominica; Dominican Republic; El Salvador; Grenada; Guatemala; Haiti; Honduras; Jamaica; Mexico; Montserrat; Nicaragua; Panama; Saint Kitts and Nevis; Saint Lucia; Saint Vincent and the Grenadines; Sint Maarten; Trinidad and Tobago
Oceania	Cook Islands; Fiji; French Polynesia; Kiribati; Marshall Islands; Micronesia, Federated States of; Nauru; New Caledonia; Niue; Palau; Papua New Guinea; Samoa; Solomon Islands; Tonga; Vanuatu
Transition Economies	Albania; Armenia; Azerbaijan; Belarus; Bosnia and Herzegovina; Georgia; Kazakhstan; Kyrgyzstan; Moldova, Republic of; Montenegro; Russian Federation; Serbia; Tajikistan; The former Yugoslav Republic of Macedonia; Turkmenistan; Ukraine; Uzbekistan

Appendix B: List of Countries per Region

The following tables provide an overview of the countries categorized under various regions used throughout this Investment Report (i.e. Chapters 2, 3, 4 and 5).

Region	Countries
BRICS	Brazil; Russia; India; China; South Africa
EU-28	Austria; Belgium; Bulgaria; Cyprus; Croatia; Czech Republic; Denmark; Estonia; Finland; France; Germany; Greece; Hungary; Ireland; Italy; Latvia; Lithuania; Luxembourg; Malta; Netherlands; Poland; Portugal; Romania; Slovakia; Slovenia; Spain; Sweden; UK
GCC	Bahrain; Kuwait; Oman; Qatar; Saudi Arabia; UAE
Next-11	Bangladesh; Egypt; Indonesia; Iran; Mexico; Nigeria; Pakistan; Philippines; South Korea; Turkey; Vietnam
North America	Canada; US

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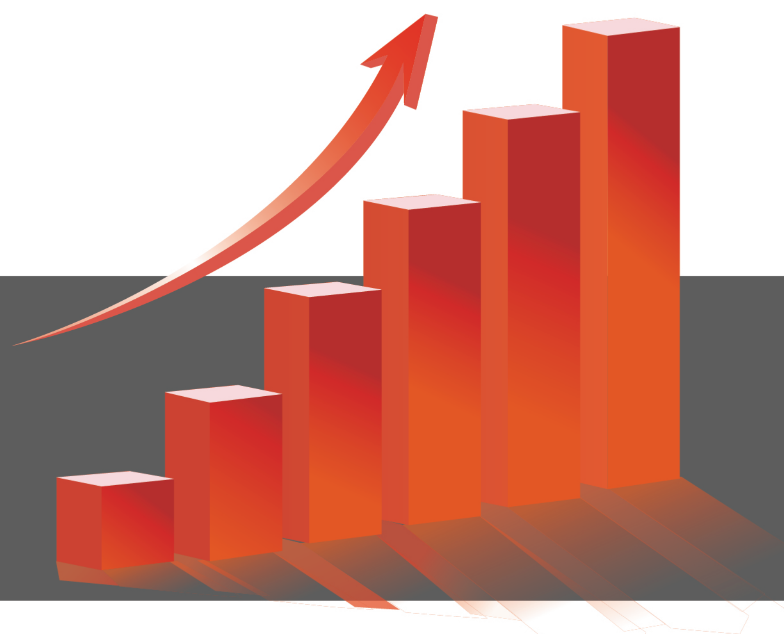

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HEAD OFFICE

DUBAI United Arab Emirates

Annual Investment Meeting
P.O. Box 10161 Dubai
T: +971 43923232
F: +971 43923332
E: info@aimcongress.com
W: www.aimcongress.com