

Foreign Direct Investment (FDI) Confidence Index

The Foreign Direct Investment Confidence Index is a regular survey of global executives conducted by A.T. Kearney. The Index provides a unique look at the present and future prospects for international investment flows. Companies participating in the survey account for more than \$2 trillion in annual global revenue.

Current Research

Corporate FDI Plans on Hold for the Next Two Years

25 January 2010

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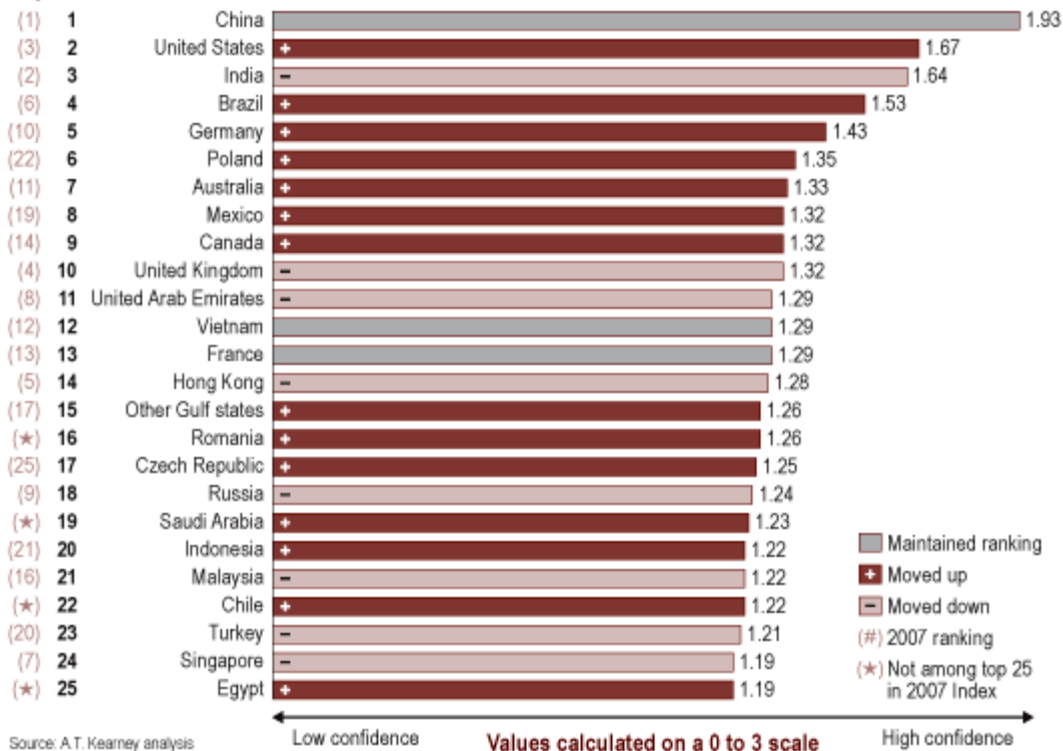
FDI flows will remain disappointing through 2011, according to the 2010 A.T. Kearney Foreign Direct Investment Confidence Index, a regular assessment of senior executive sentiment at the world’s largest companies. The Index also found executives are wary of making investments in the current economic climate and revealed that they expect the economic turnaround to happen no earlier than 2011. Half of the companies surveyed also report that they are postponing investments as a result of market uncertainty and difficulties in obtaining credit.

China remains the top-ranked destination by foreign investors, a title it has held since 2002. The United States retakes second place from India, which had surpassed it in 2005. India, Brazil and Germany complete the top five favored investment destinations.

Overall, developed economies rose in the Index as investors looked for safety. The most striking exception is the United Kingdom, whose reliance on financial services left it exposed in the current crisis. At the same time, the placement of China, India and Brazil in the top five shows a strong vote of confidence for the strength of these economies. Investors also expressed the most optimism about the future outlook for China, India and Brazil.

2010 FDI Confidence Index®

Top 25



Corporate FDI Plans on Hold for the Next Two Years

"Flight to safety" lifts advanced economies in A.T. Kearney rankings, with investor outlook highest for emerging market giants Brazil, China, and India

Half of investors surveyed expect to postpone planned investments due to economic crisis

WASHINGTON, D.C., January 25, 2010 – FDI flows will likely remain disappointing through 2011, according to the 2010 A.T. Kearney Foreign Direct Investment Confidence Index, a regular assessment of senior executive sentiment at the world's largest companies.

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“The results indicate a return to market fundamentals and a flight to quality for corporate executives,” said Paul A. Laudicina, managing officer and chairman of A.T. Kearney. “Companies are looking for the antidote to uncertainty and increasingly looking to invest in the near abroad.”

Investors postpone investments

The global economic crisis has already had a significant impact on FDI flows and the Index indicates that this will continue. Of the nearly half of investors that indicated plans to postpone their FDI investment, most will do so for a year or more, probably presaging flat FDI levels for the foreseeable future. The main drivers behind these low numbers are uncertainty about market opportunities amid the current turmoil (cited by two-thirds of executives) and difficulty finding financing.

A stunning 72 percent of investors believe that the Asia-Pacific region will lead the world out of the recession. Only 15 percent believe that North America will rebound the fastest and a mere 6 percent believe that Europe will lead the way to recovery.

Not surprisingly then, Asian investors exhibit more optimism and FDI investment intention than their counterparts from the U.S. or Europe. Seven of the top 10 preferred investment targets for Asian investors were “near abroad” countries from the Asia Pacific region.

China, India and Brazil dominate the index

For the first time, the three major emerging markets—China, India and Brazil—all ranked among the top four investment destinations as investors expect these countries to continue to deliver growth despite the economic crisis. Investors also reported the highest degree of optimism in the outlook for three countries, with nearly one-third seeing a more positive outlook for China (32 percent) and India (31 percent) compared to one year ago, and 22 percent saying Brazil’s outlook had improved. In contrast, investor outlook for the United States was decidedly more negative, with 22 percent of executives having more negative outlook for the country than a year ago.

China continued as number one in the Index and the distance between it and the next competitor, the United States, is larger than any of the subsequent gaps between countries in the ranking. FDI inflows to China in 2008 grew to \$108.3 billion, up from \$83.5 billion in 2007, and investment announcements reflect its continued attractiveness. Despite the positive investor outlook,

India fell behind the United States to third in the ranking. While investors may have long-term confidence in the Indian economy, in times of economic uncertainty they prefer the more predictable and better-known destination. India scored well across industries and was number one among nonfinancial services investors, however.

Brazil has been on an upward trajectory since 2004. Having grown robustly despite the severity of the global financial crisis, it has now reached the top five for the first time since 2001.

“The emerging market giants China, India, and Brazil are gaining strength out of the crisis, as investors from all regions report strong confidence in their future outlook and see investments to these countries as indispensable to maintain competitiveness in tomorrow’s marketplace,” said Johan Gott, manager of the FDI Confidence Index.

Middle East fares well

Unlike many emerging markets, the economies of the Middle East fared well and investor confidence is even higher than in past years. The top destination in the region, the United Arab Emirates, home to Dubai and Abu Dhabi, held up well in spite of a flurry of negative publicity during the survey period.

“The UAE’s number 11 ranking indicates that investors both have grasped the importance of the Middle East and North Africa region with its 500 million consumers and that they expect the Emirates in general, with Dubai as the preferred entry point, to continue to be the leading hub for investments to the rest of region,” said Dirk Buchta, A.T. Kearney managing director Middle East.

The largest consumer markets in the Middle East, Saudi Arabia and Egypt, entered the FDI Confidence Index for the first time, indicating investors’ interest in the increasingly affluent consumers in these countries.

Additionally, “Other Gulf States” (referring to Bahrain, Kuwait, Oman, and Qatar) improved over its performance in the last Index.

Executives brace for new consumer patterns and supply chains

Despite the economic crisis, executives see some lasting and transformative trends developing in consumption patterns, including increased internet shopping, higher saving rates and thriftier shopping. But, perhaps surprisingly, the most significant shift is expected to relate to increased consumer awareness of sustainability, with 60 percent of executives citing this as the consumption pattern most likely to endure post recovery.

“Companies believe that continuous investment in sustainable business practices is not a luxury but a necessity to compete in the future business environment and to deliver broadly on the needs of stakeholders,” Laudicina said.

Executive also indicate that global supply chains are under intense scrutiny, with two-thirds saying they have changed their supply chain strategy over the last year. Examples of supply chain changes most frequently cited include relocating production to lower cost locations, investing in better quality and decreasing the number of production locations.

“This global crisis has precipitated the type of global supply chain reassessment that we have not seen since the accelerated globalization days of the 1990s,” Laudicina said.

The 25 Most Attractive FDI Destinations According to Corporate Executives:

Country	2010 Rank	2007 Rank	Change
China	1	1	0
United States	2	3	+1
India	3	2	-1
Brazil	4	6	+2
Germany	5	10	+5
Poland	6	22	+16
Australia	7	11	+4
Mexico	8	19	+11
Canada	9	14	+5
United Kingdom	10	4	-6
United Arab Emirates	11	8	-3
Vietnam	12	12	0
France	13	13	0
Hong Kong	14	5	-9
Other Gulf States*	15	17	+2
Romania	16	-	N/A
Czech Republic	17	25	-8
Russia	18	9	-9
Saudi Arabia	19	-	N/A
Indonesia	20	21	+1

Malaysia	21	16	-5
Chile	22	-	N/A
Turkey	23	20	-3
Singapore	24	7	-17
Egypt	25	-	N/A

** Includes Bahrain, Kuwait, Oman and Qatar*

