

**The 2014 A.T. Kearney
Foreign Direct Investment Confidence Index®**

Ready for Takeoff

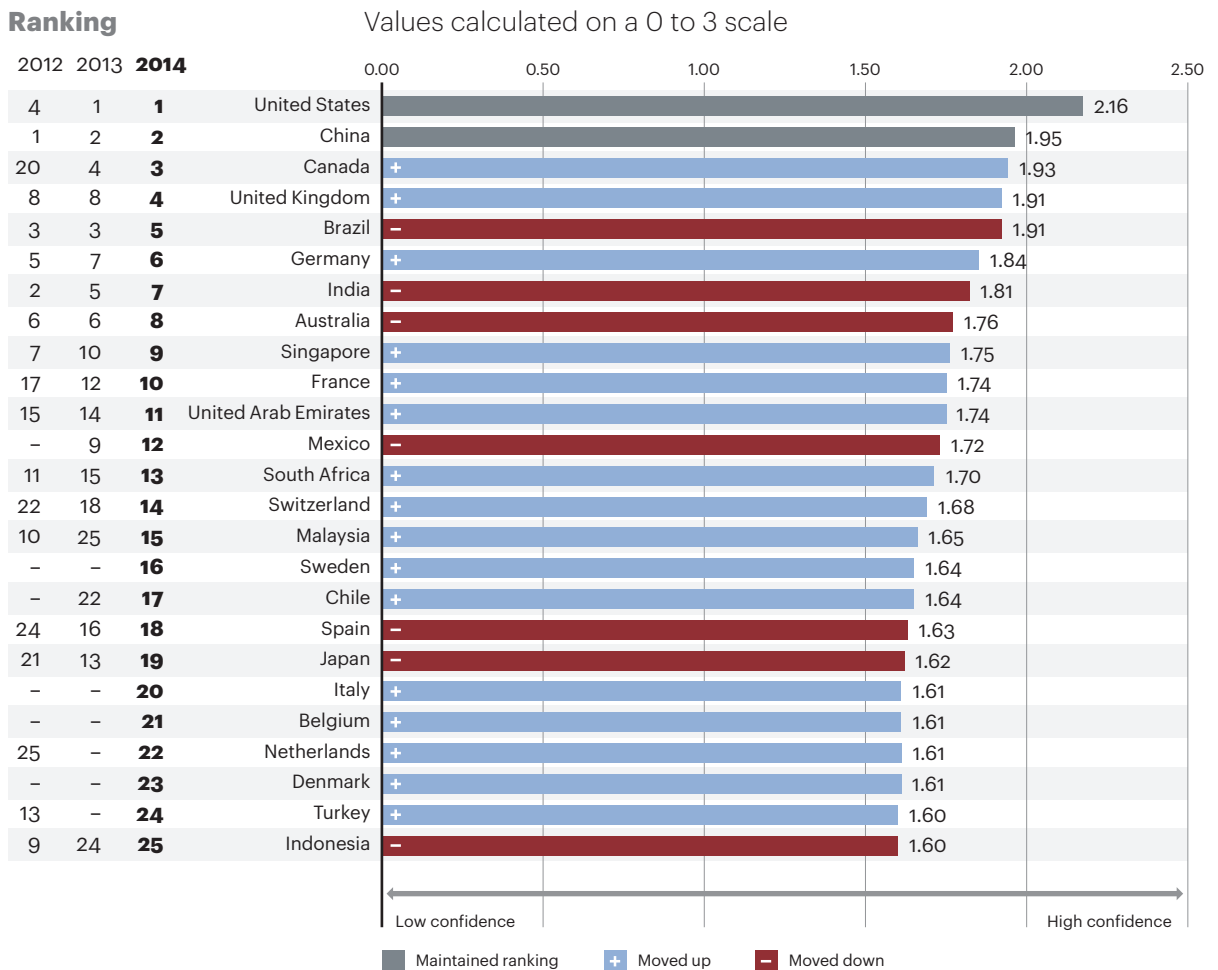
In spite of the slow and uneven economic recovery, business executives now feel more bullish about the global outlook. A majority of business leaders report that this optimism will translate into increased levels of foreign direct investment in the next 12 months.



The A.T. Kearney Foreign Direct Investment Confidence Index®, established in 1998 and now in its 14th edition, examines overarching trends and ranks countries on how changes in their political, economic, and regulatory systems are likely to affect foreign direct investment (FDI) inflows in the coming years (see sidebar: About the Study on page 3). As in the past, this year's index provides valuable insight into how business leaders regard the medium-term economic outlook.

Five top-line conclusions emerge from the 2014 A.T. Kearney index (see figure 1):

Figure 1
2014 FDI Confidence Index® ranking and scores



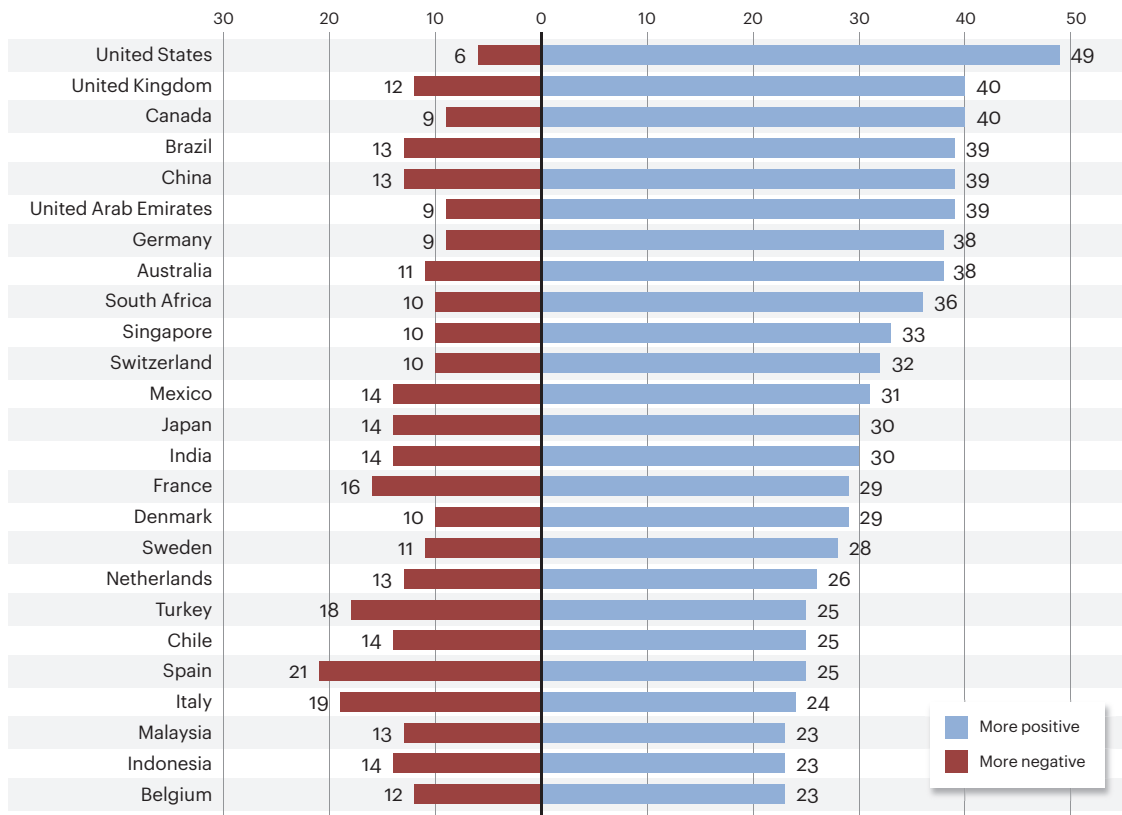
Source: A.T. Kearney Foreign Direct Investment Confidence Index®, 2014

- The United States tops the index for the second year in a row, demonstrating sustained investor confidence in the strength of its ongoing economic recovery. In addition to being the most likely destination for FDI, no other country has experienced as profound a change in the expectations of the business leaders we surveyed. A full 49 percent of respondents—compared to 39 percent in 2013 and 23 percent in 2007—indicated that their outlook for the United States is significantly more positive now than it was two years ago

Figure 2

Is your outlook on this country more positive or negative than it was in 2012?

(% of respondents)



Source: A.T. Kearney Foreign Direct Investment Confidence Index®, 2014

(see figure 2). By contrast, only 6 percent indicated that they expected a more negative outlook (compared with 11 percent last year and 23 percent in 2007). The message here is crystal clear: the United States is back in the minds of global business leaders as the prime destination for their investment. Never in the 16-year history of this index has a country had such a positive net position (43 percent).

- Battered by economic and financial uncertainty, Europe nonetheless has staged an important comeback in the expectations of global business leaders. Eleven European countries are among the top 25 on our global list. The four largest European Union economies—the United Kingdom (4th), Germany (6th), France (10th), and Italy (20th)—all gained positions from their rankings last year. Spain, despite its headwinds, ranked 18th. In addition, many small Western and Northern European economies have also surfaced on the radar screens of investors: Switzerland (14th), Sweden (16th), Belgium (21st), the Netherlands (22nd), and Denmark (23rd) all make it to the top 25 this year. Turkey took the 24th position.
- While rapid-growth emerging economies continue to place well in the index, the latest results show a strong shift to the OECD economies.¹ Last year, OECD member states represented

¹ OECD is the Organisation for Economic Co-operation and Development.

13 of the 25 top-rated destinations for direct investment flows. This year, the corresponding number rose to 17, which may reflect a flight to quality as the various uncertainties associated with the global economy continue to grow.

- Although there was evidence of concern about the fragile state of some emerging economies, the index reveals that a core group of developing economies continues to enjoy widespread confidence among business leaders. China, which led in investor confidence between 2002 and 2012, holds steady in second place. Brazil (5th) and India (7th) both had strong showings. Other important emerging markets, such as the United Arab Emirates (11th), Mexico (12th), South Africa (13th), Malaysia (15th), and Indonesia (25th), are also among the top 25.
- When it comes to perceptions of the future economic outlook, our respondents are more bullish than in the past index. Nearly four out of five were “much more optimistic” (18 percent) or “somewhat more optimistic” (61 percent) that the global economy had improved from a year earlier. Furthermore, 12 percent expect the global economy to recover “within the year,” while another 33 percent of respondents say “next year,” and an additional 32 percent indicated that they believe the economy will recover “two years from now.” In other words, more than three-quarters of the respondents believe that the recovery will occur within two years—much longer than thought in 2010, but slightly less than foreseen last year.

About the Study

The 2014 A.T. Kearney Foreign Direct Investment Confidence Index® is constructed using primary data from a proprietary survey administered to senior executives of the world’s leading corporations. Respondents include C-level executives and regional and business heads. The 300 participating companies represent 26 countries and span all industry sectors. All companies report global revenue of more than \$1 billion. To reflect the increasing influence of emerging markets in FDI decision making, more than one-third of respondents’ companies are head-quartered in developing countries. The survey was conducted in January and February of 2014.

The index is calculated as a weighted average of the number of high, medium, and low responses to questions about the likelihood of direct investment in a market over the next

three years. Index values are based on non-source-country responses. For example, the index value for the United States was calculated without responses from U.S.-based investors. Higher index values indicate more attractive investment targets.

While the FDI Confidence Index provides readers with investor attitudes about the future, it is not designed to reveal specific reasons for the various rankings of the countries. This study reflects upon likely causes for upward or downward changes, but the conclusions must be regarded only as considered judgment on the part of A.T. Kearney’s Global Business Policy Council.

Since the inception of the FDI Confidence Index in 1998, the 10 most attractive FDI destinations have consistently received 50 percent or more of global FDI

inflows roughly one year after the survey. Over the same period, on average, the top five countries have captured 35 percent of global FDI inflows. There is an even stronger correlation between index ratings and future bricks-and-mortar FDI, especially after correcting for anomalies, such as those stemming from tax havens.

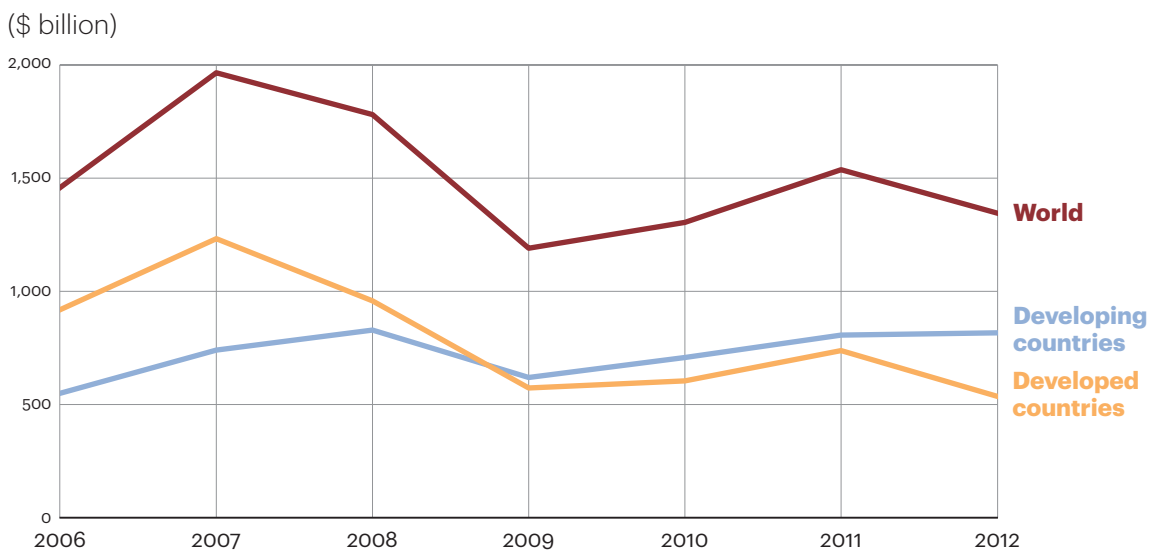
FDI flow figures are the latest statistics available from the United Nations Conference on Trade and Development (UNCTAD). Other secondary sources include investment promotion agencies, central banks, ministries of finance and trade, and major periodicals.

For past editions of the FDI Confidence Index, please go to www.atkearney.com/gbpc/foreign-direct-investment-confidence-index.

Global FDI Flows Holding Steady

FDI flows hit an all-time high of \$2 trillion in 2007 (see figure 3), when global economic growth stood at 3.9 percent and most economists were predicting continued robust growth. The International Monetary Fund (IMF), for example, suggested in its October 2007 *World Economic Outlook* that “[a]t this point, we expect global growth to slow in 2008, but remain at a buoyant pace.” The reality, as is now clear, was substantially lower than the IMF’s forecast of global growth at a “solid” 4.75 percent. What came to be called the Great Recession translated into an economic contraction of more than 2 percent in 2009. Likewise, global FDI flows dropped to \$1.8 trillion in 2008 and to \$1.2 trillion in 2009.

Figure 3
World FDI inflows (2006–2012)



Sources: UNCTAD; A.T. Kearney analysis

In 2010 and 2011, as the global economy slowly recovered, FDI improved modestly as investors got back to business. In 2012, however, global FDI suffered a setback, dropping to \$1.4 trillion as the ongoing effects of the economic and sovereign debt crises and concern over systemic uncertainty continued to take their toll. In the first half of 2013, global FDI inflows were an estimated \$745 billion—4 percent higher than the same period in 2012—suggesting that 2013 total flows (which will be released by UNCTAD in late June 2014) could remain close to the level of 2012.²

In parallel, the pace of legislation favoring the liberalization of the regulatory environment for FDI inflows has been slowing. In 2012, the last year measured, a quarter of all changes in national investment policies were focused on restricting or regulating investments rather than promoting them. This represents a pronounced increase from 2000, for example, when only 6 percent of legislation supported increased regulation.

² UNCTAD is the United Nations Conference on Trade and Development.

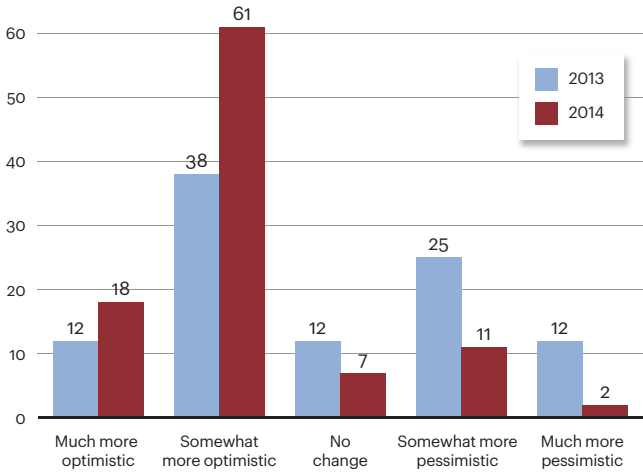
The relative rise in restrictive policies has set back cross-border M&A transactions due to antitrust rulings, national security concerns, or outright political opposition. According to UNCTAD, the total gross value of the 21 largest cross-border M&A deals was just \$265 billion between 2008 and 2012. Primary industries are the most affected, but financial services and telecommunications are also suffering from this more difficult investment environment.

Investment Prospects Improve

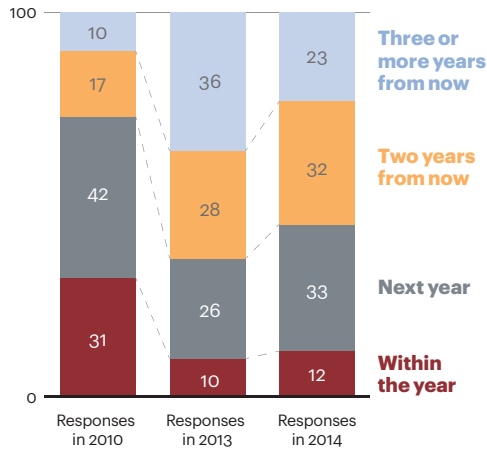
By contrast, the current data now shows clear signs of renewed confidence (see figure 4). Nearly four of every five respondents are more optimistic about the global economy than they were a year ago. That compares with 50 percent in 2013 and 37 percent the year before. This year, only 13 percent are pessimistic (“somewhat more pessimistic” and “much more pessimistic”) about future prospects for the global economy.

Figure 4
Changing outlook on the global economy

Compared to a year ago, how has your view on the global economy changed?
 (% of respondents)



When do you expect the global economy to recover?
 (% of respondents)



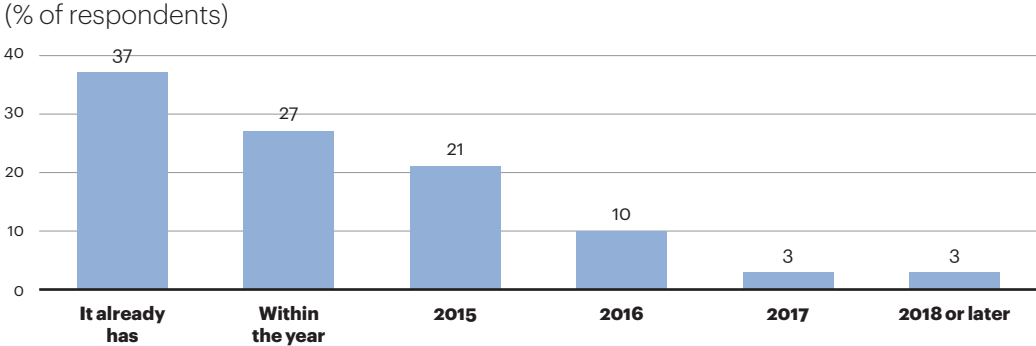
Note: Figures may not resolve due to rounding.
 Source: A.T. Kearney Foreign Direct Investment Confidence Index®, 2014

Respondents this year, however, are not as optimistic as in the past when it comes to the timing of the global economic upturn. In the immediate aftermath of the recession, they were confident that the economy would recover in relatively short order. Our 2010 index documented how a 73 percent share of respondents expected the global economy to recover before 2012. In our 2013 index, the corresponding number of respondents expecting recovery within two years had fallen by more than one-half—to 36 percent. This year, the level has risen slightly to 45 percent.

When asked when their investment levels will return to precrisis levels, nearly one-half of executives reply that they expect restored flows no later than 2015. And more than one-third

say that their FDI levels are already back to pre-recession normal (see figure 5). These results are therefore a welcome signal of a more bullish corporate sector. Given J.P. Morgan's estimate that large companies globally are sitting on \$5.3 trillion in cash, we can conclude there is ample room for additional investments that can help jump-start the global economy.

Figure 5
When will your company's FDI return to its precrisis level?



Note: Figures may not resolve due to rounding.
Source: A.T. Kearney Foreign Direct Investment Confidence Index®, 2014

This optimism has the potential to become a self-fulfilling prophecy, as a return to normal levels of investment would significantly contribute to future growth. And because planning horizons for investments are in most cases longer than 12 months, it is likely that these results are clear reflections of actual corporate planning.

Ambitious Trade Agendas Excite Investors

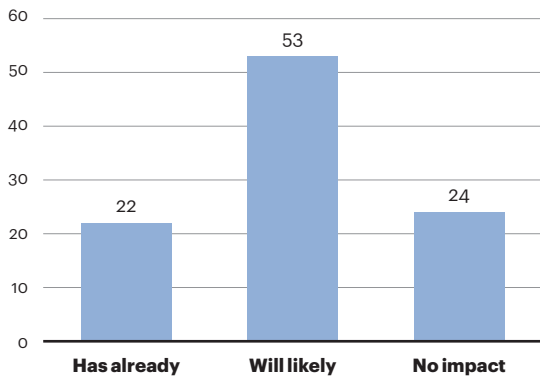
Large parts of the world are pursuing an aggressive trade liberalization agenda—with an impact on the flows of direct investment. The Trans-Pacific Partnership trade agreement negotiations now include the United States, Japan, and 10 other countries. Concurrently, the United States and the European Union are pursuing what is arguably the largest free trade agreement in the world. According to some estimates, the Transatlantic Trade and Investment Partnership (T-TIP) could boost combined U.S. and EU GDP by almost \$300 billion. To be sure, both processes have encountered obstacles, but talks continue to progress. As negotiators struggle to come to agreement, they can take heart that investors report enthusiasm for these treaties.

The business leaders in our 2014 index have already started to anticipate new trade reforms (see figure 6 on page 7). Twenty-two percent report that the prospect of a Trans-Pacific Partnership (TPP) has already affected their planning on FDI allocations for the Pacific Rim countries participating in the negotiations. A full 53 percent say that the trade agreement, if implemented, will influence their investment decisions. Similarly, the T-TIP agreement is also changing investor plans. More than one-quarter indicate that they have already made changes to their investment plans in the United States or the European Union as a result of the ongoing trade negotiations. And nearly one-half indicated that they would likely change their investment plans if the treaty is ratified.

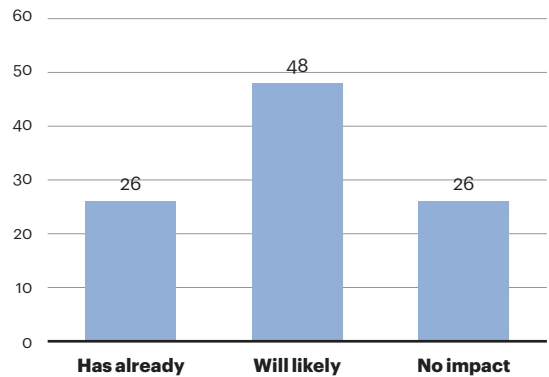
Figure 6

Effect of anticipated trade reforms on FDI

Has or will the prospect of Trans-Pacific Partnership affect your FDI decisions in the United States or partner countries?
(% of respondents)



Has or will the prospect of Transatlantic Trade and Investment Partnership affect your FDI decisions in the United States or European Union?
(% of respondents)



Note: Figures may not resolve due to rounding.
Source: A.T. Kearney Foreign Direct Investment Confidence Index®, 2014

In its current form, the T-TIP represents a new generation of trade treaty. It not only tackles tariffs, which in most cases are already very low between the United States and the European Union, but also addresses non-tariff trade barriers. This includes harmonization of regulations and the opening of areas previously closed to foreign companies, such as public procurement, which respondents cite as the most important potential opportunity.

Of course, the final shape of these trade agreements cannot be known. It is a function of complex negotiations based on input from a wide group of stakeholders. Our survey results, therefore, reflect the likely stance of investors should the trade treaties take the form that is currently envisioned. Real investor responses will be predicated on the actual outcomes of these negotiations; the more ambitious the scope, the more investment in participating countries can be expected.

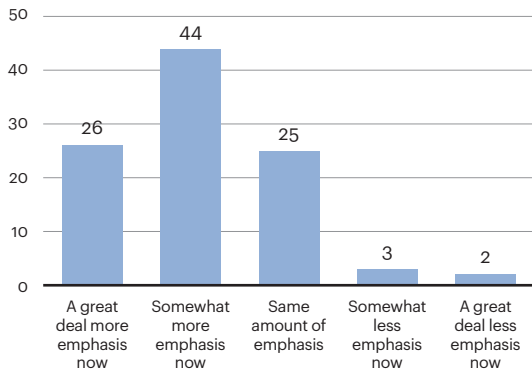
Uncertainty Focuses Attention on Macro Forces

Companies have emerged from the Great Recession with a new perspective on how to carry out strategic planning. Over the past few years, our clients have expressed a clear need for greater foresight based on the monitoring of global macro trends. To this end, we asked executives in the 2014 index about the extent to which they integrate macro trends in their strategic planning processes (see figure 7 on page 8). The results were remarkable. Seventy percent reported an increase in the emphasis on macro trends in their strategic planning process over the past five years. Only 25 percent have maintained a constant level of attention, and just 5 percent report a decrease. The results are categorical: companies in all industry sectors and from all regions have stepped up their scanning of the business environment outside of their own industry.

Figure 7
Emphasis on macro trends in strategic planning

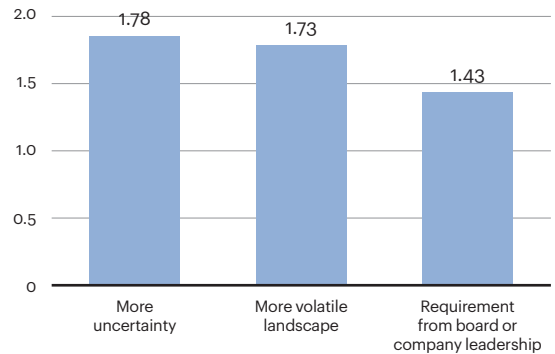
How has your emphasis on macro trends changed from five years ago?

(% of respondents)



If your emphasis has increased, why has it done so?

(Weighted score from 0 [low] to 3 [high])



Note: Figures may not resolve due to rounding.

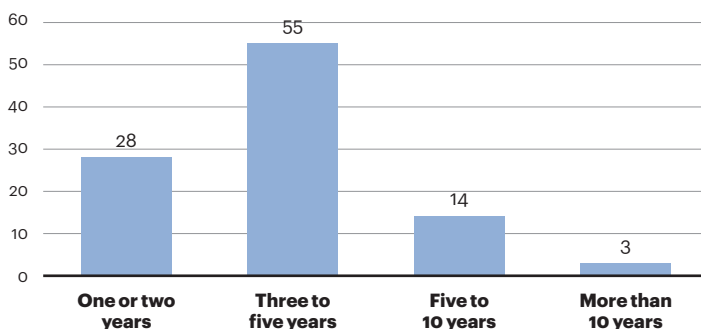
Source: A.T. Kearney Foreign Direct Investment Confidence Index®, 2014

Not only are companies frustrated by a business environment that is more unpredictable than ever, but they are also seeing larger swings than before. The majority of respondents report greater uncertainty as the main reason they have chosen to more closely monitor macro trends. The next most important reason is the increase in volatility.

In particular, companies feel that an increased focus on horizon scanning is meaningful for their capacity to navigate the business environment in the next five years. When asked, the majority of executives report three to five years as their main time horizon. A surprisingly large number of companies are focused on the next year or two. Seventeen percent scan beyond five years, including just 3 percent who are scanning beyond the next 10 years (see figure 8).

Figure 8
How far into the future does your company focus efforts to understand macro trends?

(% of respondents)



Note: Figures may not resolve due to rounding.

Source: A.T. Kearney Foreign Direct Investment Confidence Index®, 2014

Tellingly, among the 30 percent of companies that have not increased their emphasis on macro trend scanning, the most commonly cited reason is that changes today are so rapid that they consider foresighting efforts to be fruitless. For these companies, in other words, agility and crisis management, rather than tighter strategic planning, are the appropriate response to a rapidly changing environment.

Regional Findings

Asia Pacific

Asia attracts roughly one-third of all FDI and remains a top destination for international investors. With inflows down just 5 percent from 2011's all-time high, the region is showing more resilience than others in the face of continued investor reluctance.

The world's most populous consumer market and a tremendous manufacturing base, **China** attracted \$121 billion of foreign investment in 2012—a modest decline (less than \$3 billion) from the previous year. For the second year in a row, China ranks second to the United States, following a 10-year run between 2002 and 2012 when it was at the top of the index.

The low-cost fundamentals that reshaped China's economy—and, with it, the global manufacturing landscape—are beginning to evolve, spurred by rapid wage increases, rising transportation costs, and the appreciation of the renminbi, fueling efforts by China's leaders to introduce a greater share of consumption into the investment-led economy. Exports from foreign-invested enterprises are dropping particularly fast, with their share of overall exports shrinking from nearly 60 percent in 2006 to just above 50 percent in 2012. Local private enterprises are quickly taking up the slack, and if the trend continues, they will be the main source of Chinese exports by 2015.

As policy makers pursue a greater share of domestically driven economic growth, many firms are repositioning to serve local demand—often moving to China's inland provinces. China's inland areas now absorb 17 percent of FDI in the country, up from 12 percent in 2008. Walmart plans to open 110 new stores and make changes to cater to the country's growing population of urban consumers, including stocking a greater variety of imported foods and centralizing distribution to ensure fresher produce. Toyota's joint venture Sichuan FAW Toyota Motor Company is expanding its production in Chengdu to meet growing domestic demand. U.S. food major Cargill has invested \$250 million in an integrated poultry operation in Lai'an. Mitsubishi Electric has established a joint venture with appliance manufacturer Hefei Kinghome to research, develop, and design large, advanced refrigerators for increasingly affluent Chinese consumers.

Multinationals are finding joint ventures helpful for entering the more challenging inland business environment, where local firms are still hungry for new technologies. In one example, Volkswagen has invested \$225 million to build a new production plant outside Urumqi alongside local partner SAIC Motor, with hopes to reach growing Central Asia markets in addition to Xinjiang.

Furthermore, Beijing's longer-term objective to move up the value chain is bearing fruit. Samsung has invested in a joint venture to produce liquid crystal display (LCD) monitors in Suzhou and has announced plans to build a \$7 billion facility in Xi'an—its largest-ever foreign investment—to produce advanced flash memory.

India attracted \$25.5 billion in FDI inflows in 2012, down from \$31.6 billion the previous year. The cooling-off in investor sentiment we foresaw last year appears to have taken shape, with a two-place drop from 5th to 7th—its lowest rank since 2001.

In 2013, the government raised limits on FDI in telecommunications, asset reconstruction, credit information, aviation, and defense production. Foreign investment in oil refining and single-brand retail, currently capped at 49 percent, will now be granted automatic approval. AirAsia India, the joint venture between Malaysian budget airline AirAsia and Indian conglomerate Tata Sons, has been given the green light by India's Foreign Investment Promotion Board and is expected to begin operations this spring. The initial investment of \$50 million makes AirAsia the first foreign airline to set up a subsidiary in India. German luxury tableware brand Villeroy & Boch has established a joint venture with marketer Genesis Luxury, opening its first store in Mumbai and planning to grow to 16 stores in the next five years. This partnership comes after two years of struggling to clear administrative hurdles and acquire real estate without a local partner.

Asia is showing considerable resilience in the face of investor reluctance.

In a long-awaited decision reached in late 2012, the Indian government permitted partial foreign ownership of supermarkets and department stores, a major step for the country's highly underdeveloped retail market. Until late 2013, however, no foreign companies moved to enter, daunted by complex requirements, including one for 30 percent content from small and medium-sized Indian enterprises. In December 2013, though, Tesco, Britain's biggest retailer, announced that it was seeking permission to take a 50 percent stake worth \$110 million in Trent Hypermarket, an arm of Tata. This move came soon after Walmart ended its wholesale joint venture with Indian conglomerate Bharti to operate 20 stores in India, citing the local product requirement as the critical stumbling block.

Hurt by the slowdown of the global commodity boom, **Australia** (8th) drops two places this year but remains in the top 10 for the fourth consecutive edition of the index. In its third-biggest rejection of a foreign company, the Australian government blocked the \$3.1 billion acquisition of GrainCorp by Archer Daniels Midland (ADM) in November 2013, deciding that the takeover risked undermining support for foreign investment in light of food security and competition concerns. The deal would have given ADM control of seven of the eight ports that ship bulk grain from the east coast of Australia, the world's second-largest wheat exporter.

Lest investors take this move as a rule rather than the exception, just weeks later the government approved the purchase of stakes worth as much as \$4.4 billion in the country's power companies by State Grid Corporation of China. The same month, South Korea's POSCO, the world's third-largest steelmaker by output, said that it would invest \$1.4 billion in an iron ore mining venture in Western Australia as it seeks greater control over raw materials.

Australia is seeking to further diversify beyond commodity-related investment and propel its manufacturing base into high-technology, innovative products. The country is now home to aerospace and defense giant Boeing's largest R&D facility outside the United States. Kraft Foods has opened the first stage of Australia's largest food R&D center, in a move aimed at expanding its market to reach the large and expanding Asian consumer base. And to help support

industry-led innovation, the Australian government will fund 10 innovation clusters designed to bring more new ideas to market and underpin Australia's economic ties with the rest of Asia.

With famously predictable regulations, a relatively low corporate tax rate, and an ample supply of qualified workers, **Singapore** moves up one spot in the index to 9th this year. In 2012, it received \$56.7 billion in FDI, topping its previous record of \$55.9 billion set in 2011. In September 2013, the European Union and Singapore finalized the details of a comprehensive trade agreement, which the EU hopes will open the door to ASEAN's 600 million consumers.³ While still subject to approval by member states and the European Parliament, the agreement is expected to enter into force in late 2014 or early 2015.

A favorite regional headquarters and R&D center for many multinationals, Singapore is expecting expansions from GlaxoSmithKline, Procter & Gamble, and Nestlé. Global technology firm Thales opened its transportation-focused Regional Integration Center in Singapore in December 2013, its seventh global facility designed to cater to local product and operator support needs. In the past two years, two top jet engine manufacturers have broken ground for a total investment of \$810 million, following government efforts to become a global manufacturing hub for the aerospace industry. In 2012, Rolls-Royce opened its first facility outside the United Kingdom for assembling its Trent series of aircraft engines, and U.S. competitor Pratt & Whitney is building a factory that will start its first non-U.S. production of turbofan blades in 2015.

At 15th place this year, **Malaysia** aims to build on its competitive position in electronics, automotive, and machinery manufacturing to move up the value chain into high-technology, skill-intensive segments. Semiconductor and electronics components distributor Mouser Electronics, part of the Berkshire Hathaway family, has opened a customer service center in Penang to meet increasing local demand for personalized technical support in one of Asia's largest electronics manufacturing hubs. In February 2013, the \$3.4 billion Malaysia-China Kuantan Industrial Park opened for business as a joint investment by the two countries. Located on Malaysia's east coast and with a sister industrial park in Qin Zhou, China, it targets investments in high-end industries from China and other nations. Its Chinese joint owner Guangxi Beibu Gulf International Port Group has also taken a 40 percent stake in Kuantan Port, with easy access to southern China, and plans to double its capacity.

After Abenomics' major monetary stimulus and subsequently devalued yen boosted **Japan's** attractiveness, the country's FDI flows are back in the black. After two years of net outflows, Japan (19th) attracted \$1.7 billion in FDI in 2012. Japan remains an attractive regional headquarters, logistics hub, and R&D location for foreign brands due to its large market size, skilled labor force, and forward-thinking consumers. North Plains, a digital asset management company, recently opened a new subsidiary in Japan to meet growing Asian creative media and marketing demands.

With a declining population at home, most of the nation's focus has been on outward investment. Japanese businesses are expanding abroad, not just for production bases but also to enter new consumer markets. In addition to a growing presence across ASEAN, Japan is also active in the developed world. In July 2013, telecommunications firm SoftBank acquired Sprint, the United States' third-largest wireless carrier, in the biggest Japanese acquisition of a U.S. company in more than 30 years.

With a consumption-driven, resource-rich economy, investors in **Indonesia** have bet on growth, with FDI reaching a new high of \$19.9 billion in 2012. However, the country drops one spot to 25th this year as the regulatory environment jeopardizes the investment climate. A hotly

³ ASEAN is the Association of Southeast Asian Nations.

contested ban on unprocessed mineral exports went into effect in January 2014, but the full details of last-minute compromises and carve-outs continue to cause confusion in the country’s mining sector, a major source of revenue.

Indonesia has opened the gates for foreign investment in airports and ports—a major draw in what is already the world’s fifth-largest domestic air travel market. GVK, India’s largest private airport operator, is expected to become the first foreign company to hold a major stake in an Indonesian airport, with plans to build a \$700 million airport in Yogyakarta in partnership with Angkasa Pura I. Swiss-based cocoa and chocolate product maker Barry Callebaut inaugurated a joint processing facility in Makassar, a \$33 million factory oriented toward fast-growing Asian markets.

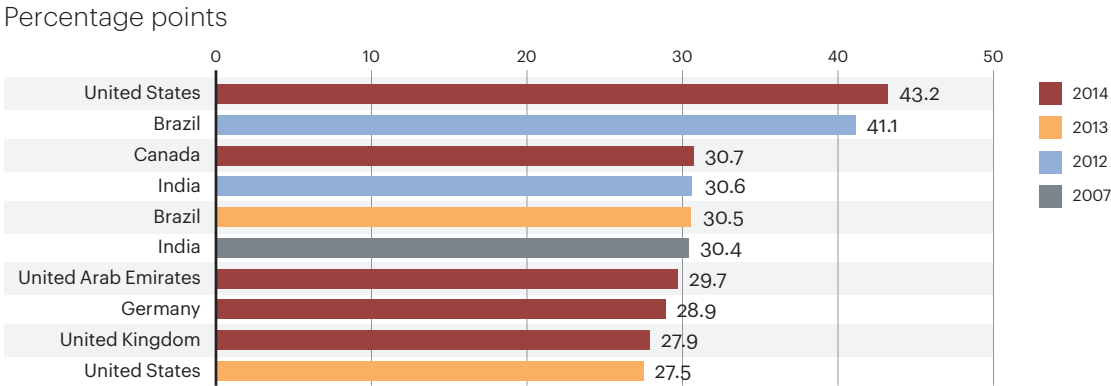
Hon Hai Precision Industry, the flagship listed unit of Foxconn, is still working out the details of its \$5–10 billion investment to build a plant to manufacture handsets for Indonesia’s largest mobile phone distributor PT Erajaya Swasembada. It aims to tap strong domestic consumption in this up-and-coming consumer market to expand its retail and distribution business and improve profitability.

Americas

Led by the United States, in first place for the second year, the Americas continue to perform well in this year’s index. With NAFTA’s renascent manufacturing base, Latin America’s expanding middle class, and booming energy markets, the region’s buoyancy continues to encourage investors.⁴

Last year, the **United States** regained the top spot for the first time since 2001 as it made progress toward steady, sustainable growth—even in the context of serious policy uncertainty. It leads the index again in 2014 as the economy looks poised to make further gains, with an improving housing market and thriving energy sector. Significantly, investor outlook on the United States is overwhelmingly positive. When asked how their outlook on the United States has changed compared to two years ago, half of respondents report a more positive outlook while only 6 percent express a more negative outlook. No other country has reached these levels of optimism since the Great Recession (see figure 9).

Figure 9
Differential between positive and negative outlook for top 10 countries (2007–2014)



Source: A.T. Kearney Foreign Direct Investment Confidence Index®, 2014

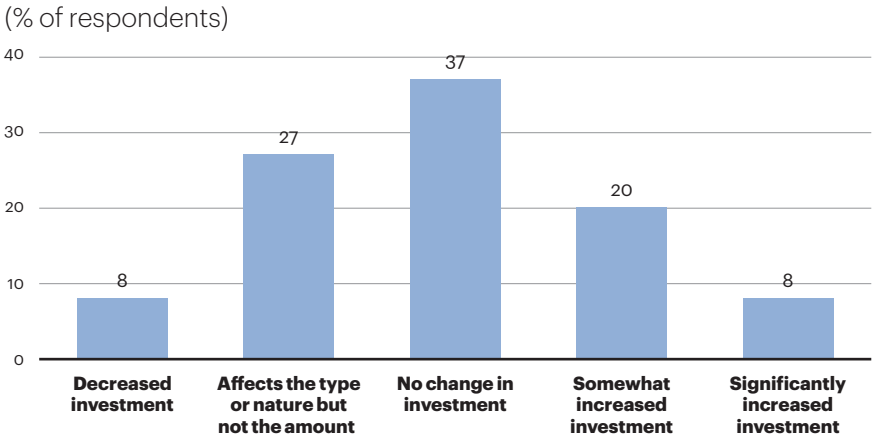
⁴ NAFTA is the North American Free Trade Agreement.

The United States recorded \$167.7 billion in FDI in 2012, still the largest inflow worldwide but down more than one-quarter from 2011. This loss of post-crisis momentum was largely due to a wave of divestments as foreign firms sold their U.S. affiliates to local or third-country companies. While recorded as outflows, divestment moves do not necessarily trigger a loss of domestic productive capacity or employment. Among the largest divestment deals were the sale of ING Direct USA by financial services company ING Group (Netherlands) to Capital One for \$8.9 billion and the spin-off of security systems company ADT’s residential business in North America by Switzerland’s Tyco International for \$8.3 billion.

Over the past two years, the United States has rolled out its first-ever national investment promotion effort, known as SelectUSA. This marks a major policy departure for the country, which has typically left FDI advocacy to state and local governments. SelectUSA provides a one-stop shop for foreign investors to receive advice on starting a business, connecting with domestic firms and localities, accessing government resources, and navigating regulations. The effort also includes increased engagement from U.S. ambassadors to solicit investment overseas and provide federal support for state and local initiatives.

An additional, much-discussed attraction of the U.S. market is the ongoing energy revolution, most notably the rapid expansion of shale gas production, which is pushing domestic energy prices lower. The shale gas revolution is certainly on the minds of investors. Twenty-eight percent report that the changing energy outlook in the United States will lead them to increase their investments in the country. Significantly, another 27 percent of investors do not plan to increase their investments but rather change their nature (see figure 10). While lower energy prices are a boon to the economy as a whole, some sectors benefit more than others. As investors consider their portfolio of investments, we can expect to see increased interest in particular in oil and gas, chemicals and process industries, and other energy-intensive sectors. For example, we have already seen the price of natural gas liquids such as ethane drop to make the United States the world’s second-cheapest location for chemical manufacturing.

Figure 10
To what extent does the change in the U.S. energy outlook affect your decisions to invest in that country?



Notes: Figures may not resolve due to rounding. U.S. respondents are excluded from the results.
 Source: A.T. Kearney Foreign Direct Investment Confidence Index®, 2014

Companies have already started to act. Taiwan's Formosa Plastics is seeking permits to expand its Texas operations with a \$2 billion investment. Louisiana is home to significant petrochemical investments, including facilities for Germany's BASF (\$42 million) and South Africa's Sasol (\$16–21 billion). SABIC, the world's largest petrochemical manufacturer, and a variety of other foreign groups including Braskem, LyondellBasell, PTT Global Chemical, and Royal Dutch Shell are considering or have made commitments to invest in the United States.

Much like Europe, the United States is seeing increased interest from Asian investors, for the purposes of serving export and domestic markets alike. In September 2013, Shuanghui (now WH Group) acquired pork producer Smithfield Foods for \$4.8 billion, the largest Chinese takeover of a U.S. company to date, in an effort to expand its offering of pork products to China's growing middle class. In January 2014, Japan's Suntory announced its plan to buy spirits company Beam for \$13.6 billion, a move that would make Suntory a top global liquor conglomerate. The latest example of Japanese beverage companies looking for overseas growth, it follows Kirin's purchase of Brazil's Schincariol in 2011 and Asahi Breweries' purchase of a stake in China's Tsingtao in 2009. Japanese telecommunications group SoftBank hopes to complement its acquisition of Sprint with a majority stake in T-Mobile, a move that would create a stronger rival for the top two U.S. mobile carriers (Verizon Wireless and AT&T) but could provoke close scrutiny from U.S. antitrust regulators, given the highly concentrated nature of the American wireless market.

The energy revolution, particularly in shale gas production, is drawing investor attention to the U.S. market.

U.S. manufacturing productivity has seen a major boost since the recession, which—coupled with a weaker dollar and rising wages in emerging economies—has made the United States a more attractive place to produce certain goods for the domestic market. Samsung will invest \$4 billion to expand production capacity for smartphone processors at its plant in Austin, Texas. With the U.S. auto industry booming, particularly in the southeast automotive cluster, South Korea's Hankook Tire is planning its first factory in the United States, with an investment of \$800 million in Tennessee. Toyota plans to invest a combined \$200 million to expand capacity across its operations in Alabama, Missouri, and Tennessee. And Kentucky alone became home to three new German-owned automotive supplier operations in 2013, with investments from Kayser Automotive Systems, Bilstein, and Dr. Schneider.

A top-five investment destination for the second year in a row, **Canada** climbs to a new all-time high of 3rd place in 2014. It drew in \$45.4 billion in 2012, up from 2011's \$40.9 billion—one of only a handful of developed countries to buck the trend of declining FDI flows. Its high-tech expertise and skilled labor force have attracted an array of investments focused on R&D, including Cisco, which plans to invest up to \$4 billion in Ontario through 2024. Samsung has opened its first Canadian R&D center in Vancouver, which will center on enterprise security solutions and global technical support. And GE Aviation opened a new R&D center in Quebec, a \$61.4 million investment. In a move to boost its reach into North America and the United Kingdom, Mexican baker Grupo Bimbo recently bought Canada Bread, one of the two dominant Canadian bakeries, for \$1.7 billion.

In 2012, the government restricted foreign state-owned enterprises from acquiring oil sands businesses and blocked takeovers of other strategic resources such as potash. It announced that it will find the acquisition of such businesses to be of net benefit to Canada on an exceptional basis only—indicating that the country is willing to accept less capital and slower development to keep resources under some Canadian control. In February 2013, CNOOC completed its takeover of Nexen, valued at \$15.1 billion, China's largest foreign purchase, which Prime Minister Stephen Harper signaled to be the end of a trend rather than a precedent. Nevertheless, investors continue to be active in other energy assets. Malaysia's state oil firm Petronas recently became Canada's largest foreign direct investor, with its \$35 billion plan to develop shale gas assets and build a liquefied natural gas (LNG) export terminal in British Columbia.

Brazil rounds out the top five of this year's ranking. Its 2012 FDI totaled \$65.2 billion, similar to the previous year's \$66.7 billion. In contrast to the recent exodus of portfolio investment, direct investors are positioning for the long haul. PepsiCo's food division is aiming to double its revenue in the next three to four years. It plans to invest in manufacturing plants nearer to its northeastern and center-west markets to cater to differing dietary habits and reduce logistics costs. Likewise, a number of car manufacturers are making bets on the country's fast-growing market, incentivized by new industrial policy measures. BMW is constructing a plant in Araquari, its first plant in South America, to commence operations in the fall of 2014. It will be joined by Audi in São José dos Pinhais, Daimler in São Paulo, Fiat in Goiana, Jaguar Land Rover in Itatiaia, and Honda in Itirapina.

Direct investors are positioning themselves for the long haul in Brazil, which comes in 5th place this year.

Brazil is home to an increasingly large group of investors from other emerging markets. VTB Capital, Russia's largest investment bank, has announced a strategic partnership with BTG Pactual to compete in the Americas, Russia, and the Commonwealth of Independent States (CIS) against U.S. and European stalwarts. In November 2013, China Construction Bank purchased 72 percent of lender Banco Industrial e Comercial for \$726 million. And with CNOOC and CNPC now taking part in an international consortium to develop Libra, Brazil's largest offshore oil discovery (each with a stake of about \$700 million), all four of China's state oil and gas companies have a presence in Brazil.

Mexico (12th) posted a somewhat disappointing \$12.7 billion in FDI in 2012, down from \$21.5 billion. That year, Belgium-based brewing company AB InBev's agreement to pay \$18 billion for the remainder of Grupo Modelo was delayed by an antitrust lawsuit and finally allowed to proceed in April 2013, which will be a welcome addition to the country's 2013 numbers. Mexico is also an increasingly active outward investor. A relatively strong peso is supporting efforts by wireless provider América Móvil, bakery Grupo Bimbo, chemical producer Mexichem, and corn flour maker Grupo Maseca, among others, to acquire assets abroad.

With low labor and logistics costs and extensive ties to the U.S. economy, Mexico is a significant, if less publicized, beneficiary of the latest reshoring wave. Thanks to close transportation links and tariff-free trade under NAFTA, Mexico is an attractive location for the final assembly

of components (including advanced parts imported from the United States and Canada), especially for bulky, high-value items that are expensive to ship, such as vehicles and appliances. Companies that have moved some or all of their production in recent years from Asia to Mexico to be closer to the United States include Emerson (electrical equipment), Mecor (furniture), Coach (premium leather goods), and Axiom (fishing rods). Chrysler will spend an additional \$164 million to expand its Ramos Arizpe plant, bringing the company's total investment in the country to \$1.25 billion. In November 2013, Nissan opened the first phase of a \$2 billion manufacturing complex in Aguascalientes that will expand the company's Mexican capacity by 25 percent.

In December 2013, President Enrique Peña Nieto signed a bill to attract private industry to the country's nationalized oil and gas industry. The most radical step toward opening the sector in 75 years, the bill's supporters hope it will lure foreign expertise and investment necessary to develop the country's deepwater and shale deposits. Standard & Poor's has raised Mexico's rating to BBB+ from BBB, anticipating that the overhaul will jump-start growth and spur investment.

Chile, with its stable economy and investment climate, is attracting attention from investors looking to maximize their growth opportunities in Latin America, rising five spots to 17th. Its 2012 inflows of \$30.3 billion set a new record for the country. Nutresa, the largest publicly traded food company in Colombia, purchased 120-year-old Tresmontes Lucchetti for \$758 million in July 2013, increasing its international presence to 15 countries in the Americas, in addition to Malaysia.

Europe

Though Europe's FDI dropped 37 percent in 2012, its \$385 billion in inflows represent more than a quarter of the world's total. Europe's myriad strengths, including a top-notch labor pool, innovation climate, and world-class infrastructure, continue to attract investors.

Northern Europe emerges as a promising subregion in the index this year, with Sweden, Belgium, the Netherlands, and Denmark all making the top 25. These small, open economies enjoyed relative stability throughout the global economic crisis, with generally better fiscal and current account balances than many other European countries, and share a number of advantages, including stable business environments, highly educated and English-speaking populations, and a high level of quality of life.

Asian businesses continue to actively snap up good deals across the continent. In particular, Chinese FDI into Europe has surged; the country's investments in Europe in 2011 and 2012 were more than double the amount it invested in the United States during those years. Asian firms are eager to gain access to technology and distribution channels, while European firms welcome new capital and an opening to reach fast-growing markets. Also, as governments privatized assets, they welcomed infusions from state-owned enterprises and sovereign investment vehicles looking for stable, long-term holdings.

The **United Kingdom** rises four positions to 4th place in the 2014 index. Eurozone investors are still interested in staking out a position, despite the announcement of an in-out EU referendum by 2017. The implications of Britain's potential opt-out remain unclear. The country might remain within the customs union while losing the authority to influence its implementation, or it could end up outside the trade area altogether. Either situation creates uncertainty for companies that produce goods in the United Kingdom for export to other European nations. Spanish

infrastructure and construction group Ferrovial, the largest shareholder in Heathrow airport, bought business services company Enterprise for \$525 million in February 2013. BMW is investing \$1.2 billion over three years across its British plants that produce the Mini, and Volkswagen's Crewe plant will receive a \$1.3 billion upgrade to produce the new Bentley sports utility vehicle (SUV).

Consistently ranked 2nd in A.T. Kearney's Global Cities Index and one of the world's premier business hubs, London is also the new home for a number of global and regional headquarters, including former U.S. insurer Aon, deepwater oil drilling rig manufacturer Noble, General Electric's oil and gas unit, and Chinese developer ABP. As an additional incentive, the government has been gradually reducing its corporate tax rate, from 28 percent in 2010 to 23 percent in 2013 to 20 percent by 2015.

The trend of investments from high-growth emerging markets is not slowing down either. Chinese businesses and investors have acquired a 30 to 35 percent stake in EDF's power station at Hinkley Point, invested \$1 billion in a business district at Manchester airport, and committed another \$1 billion to a luxury hotel development in London. Property group Dalian Wanda also bought yacht maker Sunseeker for \$491 million, in anticipation of its construction of three marinas in China. Dubai's DP World has just opened London Gateway, an ambitious \$2.5 billion container terminal in Essex.

A top-notch labor pool, innovation climate, and world-class infrastructure continue to attract investors to Europe.

The world's foremost advanced manufacturing location, **Germany** continues to attract investors seeking a secure, rewarding climate, rising one position to 6th. Recently, U.S. researcher ApoCell established a laboratory in Leipzig and announced it would collaborate with the Fraunhofer Institute to develop the company's circulating tumor cell technology. Swiss-owned specialty chemical company Clariant, which has century-old roots in Germany, has opened its global hub for R&D in Frankfurt, colocated with its largest manufacturing site. And Japanese global automotive supplier DENSO is expanding its two German engineering centers to design more products locally and offer more market-specific designs.

France reclaims a position in the top 10 this year. After two years of fits and starts, President François Hollande has embarked on an ambitious but politically fraught effort to increase France's competitiveness, particularly by making public spending more efficient, the healthcare system more cost-conscious, and administrative processes simpler. In January, he struck a deal between employers and trade unions to increase work flexibility, envisioned as part of a strategy to build a "new French model."

Hollande is still in the process of delivering these accelerated reforms, but businesses see strong potential for growth beneath the frustrations. France's large and diversified economy hosts a roster of leading brands. In 2013, South Korean cosmetics maker Amore Pacific bought perfume brand Annick Goutal, and sportswear group EXR bought fashion house Jean-Charles de Castelbajac. With highly skilled workers and Europe's most generous research tax write-off,

among other incentives, high-tech firms are setting up R&D centers around the country, particularly in the aerospace, electronics, automotive, and pharmaceutical industries. For example, in late 2012 Intel opened a new laboratory specializing in communication software components for smartphones and tablets. Since 2009, the company's presence in France has expanded from just over 100 employees to more than 700, the majority in R&D.

Switzerland continues its move up the index to 14th place. With an exceptionally high quality of life and competitive business environment, Switzerland has attracted investments across a variety of sectors and is a favored destination for multinational firms' headquarters. UK-based consumer packaging maker Rexam plans to build a new plant in Widnau. The country is also home to new technology and innovation centers for Dow, DuPont, IBM, and Kodak. Kellogg's plans to set up its snack division headquarters in Vernier, and Google has opened a new development site in Zurich.

Sweden makes its debut in the index this year at 16th. Prized for its access to new products, skills, innovations, and consensus-driven labor market relations, Sweden makes an attractive location for international brands. Enjoying the fastest growth in Europe in 2010 and 2011, Sweden combated recent sluggishness with an expansionary budget that breaks with the continent's austerity trend. Efforts included a cut to corporate tax rates and investments in R&D and infrastructure. With one of the lowest levels of government debt in the region, Sweden has more arrows in its quiver than other countries to combat any further softening. U.S.-based medical technology firm Baxter purchased equipment maker Gambro for \$4 billion in September 2013. By May 2014, Volkswagen was on track for an expansion of its ownership in truck maker Scania. Through the pending deals, the German automaker will be able to expand its stake from 63 to over 90 percent, thereby achieving a higher level of integration and synergies between Scania and heavy-truck maker MAN, which it also controls. In January 2014, Google made a deal to buy all of the electricity generated by four Swedish wind farms for a decade beginning in 2015. This deal finances the construction of four new farms by Nordic developer Eolus Vind.

With fast-growing exports and increasing competitiveness, **Spain** (18th) drops two spots this year. Though difficulties in the banking sector and property markets continue to loom on the horizon, the country has come a long way in addressing its financial and economic imbalances. Newly emerged from the recession, the Spanish government has a major tax reform planned, following earlier efforts addressing the labor market and pension system.

Spain is a particularly popular and natural destination for Latin American investors seeking an entry point into Europe. Mexican frozen food company Sigma and Chinese Shuanghui have signed an agreement to share ownership of Spanish meat processor Campofrío. Shuanghui inherited a stake in Campofrío when it bought U.S. pork producer Smithfield in September 2013. Mexico's Pemex bought 51 percent of a Spanish shipyard, and Mexican and Colombian investors have taken stakes in banks Popular and Sabadell. Bertelsmann is considering an increase in its share of Atresmedia beyond its present 19.8 percent stake, and its Penguin Random House subsidiary just bought Ediciones Santillana's trade book business for \$100 million.

Italy (20th) makes a comeback to the index for the first time since 2005, defying an ongoing recession, high public debt, and a government hamstrung by power struggles. In recent years, the weakness of the euro and banks' reluctance to lend to local firms has opened the door for investors interested in Italian companies in the luxury goods, food, and beverages industries—particularly those from emerging markets. In 2012, Shandong Heavy Industry Group of China bought 75 percent of Ferretti, a luxury yacht builder, for \$228 million. The next

year, Cheil Industries, Samsung Group's fashion unit, acquired Italian luxury fashion brand Colombo Via Della Spiga. Abu Dhabi-based Etihad Airways has signaled interest in buying a stake in Alitalia, which is struggling with debt and increasing competition from low-cost carriers.

Because much of the Italian industrial base is made up of small and medium-sized enterprises, Italy has never attracted as much FDI as some of its neighbors. In 2012, Italy received \$9.6 billion in FDI, down from 2011's \$34.4 billion but mirroring 2010's \$9.1 billion. Although these inflows remain well below Italy's precrisis peak of \$43.8 billion in 2007, they represent a significant recovery from the nadir of the economic crisis in 2008.

Belgium (21st) returns to the index after a long absence, last ranking 24th in 2002. The "crossroads of Europe," Belgium is home to a large number of logistics companies, as well as chemicals, life sciences, industrial automation, and other high-value industries. In late 2012, Janssen, part of Johnson & Johnson group, opened a major new European hub for pharmaceutical distribution in La Louvière. In December 2013, UK-based Ineos opened a new ethylene terminal, the largest of its kind in Europe, in the Port of Antwerp. The following month, Thailand-based Charoen Pokphand Foods acquired prepared meals producer Tops Foods to commercialize Asian recipes for the European market.

The **Netherlands** reappears this year at 22nd place. The country has had a more difficult time economically than other Northern European locations but has nonetheless attracted a number of high-quality investments thanks to its strategic location, sound business environment, and quality talent. It is home to the new European headquarters and R&D center for U.S. labeling and packaging materials firm Avery Dennison. Online travel company Expedia is opening a new location in Amsterdam that will serve as its global finance operations center. And U.S.-based Tesla Motors opened a new European service and parts headquarters and assembly plant in 2013.

Denmark makes the top 25 of our index for the first time this year, ranking 23rd. In May 2013, the government approved a growth plan that includes lower corporate taxation, increased R&D tax credits, continuing education for the Danish workforce, and other measures to further increase the country's competitiveness. Globally, Denmark is recognized as a strong hub for the clean technology, information and communications technology (ICT), life sciences, and maritime industries, with world-class infrastructure and an impressive track record of innovations. In 2011 and 2012, German conglomerate Siemens invested \$182 million to expand its development of offshore wind turbines. In April 2013, Russian-owned NLMK DanSteel, one of the world's largest steel producers, invested \$137 million to increase capacity at its rolling mill in the country, with the goal of becoming a one-stop shop for businesses in the offshore wind and maritime industries.

Turkey (24th) returns to the index this year, after missing the top 25 in 2013, as a platform to serve Europe and the Middle East and a large domestic market in its own right. In January 2013, Toshiba Medical Systems established a subsidiary in Turkey to gain a foothold in the country's high-growth healthcare market. The country has attracted several large energy investments, including the \$3 billion sale of two electricity distribution companies to Enerjisa, Sabancı's joint venture with German company E.ON. An important energy corridor connecting East and West, Turkey will be home to a planned \$5.3 billion refinery, a joint venture with Azerbaijan's state oil company SOCAR.

Credit rating agency Fitch upgraded the country to "investment grade" in late 2012, noting its declining government debt, sound banking system, dynamic private sector, and favorable medium-term growth prospects. However, the company recently indicated that the ongoing

political crisis could damage investor confidence. The ruling Justice and Development Party (AKP) has faced massive anti-government demonstrations that first erupted in Istanbul's Gezi Park in June 2013. Protests have reignited several times since, most recently over a draft bill that would increase controls over the Internet and an ongoing corruption investigation involving several key government officials.

Middle East and Africa

Given the persistent political instability plaguing much of the Middle East, the region's \$50 billion in foreign investment, steady from the previous year, is an encouraging sign of investor confidence. This year, however, only one country in the region ranks in the top 25 of the index, pointing to potential sluggishness in the coming years.

Africa, on the other hand, bucked 2013's lethargic trend with a 12 percent increase to \$47.6 billion in FDI. Its growth was driven partly by investment in extractive industries, but manufacturing and services are also seeing increased interest.

The **United Arab Emirates** (11th) reclaims its position from 2010, after a minor dip in the rankings in 2012 and 2013. It reported a \$9.6 billion inflow of FDI in 2012, up from \$7.7 billion the year before. Following the opening of new areas for foreign investment, several large Emirati companies are lifting the total value of equity that may be held by foreign investors. Most recently, Dubai Investments announced a lifting of the ceiling to 35 percent, and Deyaar, Union Properties, and Mashreq have also recently lifted their ceilings. FDI in the hospitality business is expected to increase as Dubai prepares to host the 2020 World Expo. The total investment needed for the event is \$8.8 billion, including plans to double the number of hotel rooms in Dubai.

South Africa (13th) moves up two spots from 2013. It received \$4.5 billion in 2012 after a bounce of \$5.8 billion in 2011. British oil major BP announced in April 2013 it will invest \$550 million in its refinery, terminal, and service station retail network assets over five years. BP will partner with South African retail giant Pick n Pay to open 120 Pick n Pay Express stores across the country, mimicking similar ventures between South Africa's Woolworths and Engen and between Fruit & Veg City and Caltex. In May 2013, Google made its first renewable energy deal in Africa with a \$12 million solar investment in Northern Cape province. While not particularly large deals, these moves are a positive sign for a country with volatile FDI figures, the result of the preponderance of larger M&A deals.

Ready for Takeoff?

Investors are chastened by recent volatility and ongoing economic uncertainty, but our findings suggest that the corner has been turned. Corporations are becoming anxious to convert their massive cash reserves into productive investments with attractive risk-adjusted returns. New trade agreements and continuing global economic growth—however slow and tenuous—may be the spark that will reignite the fuse of FDI.

Opportunities abound for those who know where to look, aided by strategic foresighting and scenario-based planning to understand where the potential lies and be prepared to react to different eventualities.

Authors



Paul Laudicina, chairman emeritus of A.T. Kearney and chairman of the Global Business Policy Council, Washington, D.C.
paul.laudicina@atkearney.com



Erik Peterson, partner and managing director of the Global Business Policy Council, Washington, D.C.
erik.peterson@atkearney.com



Johan Gott, consultant, Washington, D.C.
johan.gott@atkearney.com

About the Global Business Policy Council

A.T. Kearney's Global Business Policy Council, established in 1992, is dedicated to helping business and government leaders worldwide anticipate and plan for the future. Through strategic advisory services, regular publications, and world-class global meetings, the Council is committed to engaging in thoughtful discussion and analysis of the trends that shape business and government around the globe.

A.T. Kearney is a global team of forward-thinking partners that delivers immediate impact and growing advantage for its clients. We are passionate problem solvers who excel in collaborating across borders to co-create and realize elegantly simple, practical solutions and sustainable results. Since 1926, we have been trusted advisors on the most mission-critical issues to the world's leading organizations across all major industries and service sectors. A.T. Kearney has 59 offices located in major business centers across 40 countries.

Americas	Atlanta	Detroit	San Francisco
	Bogotá	Houston	São Paulo
	Calgary	Mexico City	Toronto
	Chicago	New York	Washington, D.C.
	Dallas	Palo Alto	

Asia Pacific	Bangkok	Melbourne	Singapore
	Beijing	Mumbai	Sydney
	Hong Kong	New Delhi	Tokyo
	Jakarta	Seoul	
	Kuala Lumpur	Shanghai	

Europe	Amsterdam	Istanbul	Oslo
	Berlin	Kiev	Paris
	Brussels	Lisbon	Prague
	Bucharest	Ljubljana	Rome
	Budapest	London	Stockholm
	Copenhagen	Madrid	Stuttgart
	Düsseldorf	Milan	Vienna
	Frankfurt	Moscow	Warsaw
	Helsinki	Munich	Zurich

Middle East and Africa	Abu Dhabi	Johannesburg	Riyadh
	Dubai	Manama	

For more information, permission to reprint or translate this work, and all other correspondence, please email: insight@atkearney.com.

A.T. Kearney Korea LLC is a separate and independent legal entity operating under the A.T. Kearney name in Korea.

A.T. Kearney operates in India as A.T. Kearney Limited (Branch Office), a branch office of A.T. Kearney Limited, a company organized under the laws of England and Wales.

© 2014, A.T. Kearney, Inc. All rights reserved.

The signature of our namesake and founder, Andrew Thomas Kearney, on the cover of this document represents our pledge to live the values he instilled in our firm and uphold his commitment to ensuring “essential rightness” in all that we do.
