Overview

Until the recent economic downturn, private capital flows, especially FDI, had surged to record levels in both developed and emerging markets. The financial crisis dented investment plans everywhere, pressing the brakes on global growth. Although developing countries have not been spared from the effects of the crisis, they have on average fared better than the industrialized world in terms of both economic growth and FDI inflows. In addition, trends that sustained the expansion of FDI before the downturn, such as the growing consumer markets, internationalization of supply chains and intensified competition, as well as increasingly open investment regimes, capital markets and business environments, are expected to underpin a revival of foreign investment.

FDI flows—projected to rebound in 2010—are expected to further swing towards emerging markets over time. This trend, also sustained by the rise of investors based in emerging markets, reflects an economic shift towards the emerging world, whose global weight is expected to continue growing both as a destination, but also as a source, of FDI.

Despite the severity of the crisis, corporate investors have maintained a positive outlook on business prospects in emerging markets, according to a set of surveys of multinational enterprises (MNEs) carried out for this report. Investment intentions, however, remain heavily concentrated in the handful of countries that have absorbed the bulk of FDI into emerging markets over the past few years.

The Global Economy on the Way to Recovery

Well into its deepest global financial crisis of the post-war era, the world economy is entering a phase of economic recovery and financial market stabilization. Following extraordinary policy responses, financial market conditions are signaling much improved investor confidence and the return of risk appetite for emerging market assets. Since March 2009, liquidity conditions in global interbank markets have eased considerably, credit risk premiums have narrowed, and equity markets have staged a tentative revival. The pace of credit rating deterioration has slowed nearly to a halt in the emerging market sovereign class. According to Standard & Poor’s, no emerging market sovereign has defaulted in the past six months, and one sovereign emerged from default.

Led by the strong rebound in industrial production in Asia, the global economy appears to be moving to positive growth territory in the second half of 2009, although the recovery is expected to be much subdued. Global GDP is forecast to increase by a modest 2.6 percent in 2010 and 3.2 percent by 2011 (table 1.1), as banking sector consolidation, negative wealth effects, and risk aversion continue to weigh on demand throughout the forecast period. In developing countries, growth rates are expected to be higher, at 5.1 percent and 5.6 percent, respectively, in 2010 and 2011. Given the output losses already absorbed, and because GDP is expected to reach its potential growth rate only by 2011, the output gap (the difference between actual GDP and its potential) and unemployment are...
expected to remain high, and recession-like conditions will continue to prevail. In addition, risks that the recovery may stall or reverse, especially as stimulus measures begin to unwind, could translate into a more pessimistic economic scenario.

The policy agenda for placing the global financial markets on a stable footing and fostering a durable economic recovery remains challenging. Over the past two years, the world has seen how a negative feedback loop between financial instability and the real economy can unfold in a dramatic slump in world industrial production, trade and output. The intensification of the financial crisis in the fall of 2008 dramatically brought home this scenario.\(^3\)

The World Bank estimates that the global economy contracted by 2.2 percent in 2009 (table 1.1). Global industrial production shrank by 13 percent in 2009 (year to year latest), and fixed investment by 9.8 percent. Unemployment has soared, and consumer confidence plummeted to all-time lows at the height of the crisis, while international trade contracted. Commodity prices (including internationally traded food commodities) also suffered, slumping by 36 percent between their peak in mid-2008 and April 2009, but have rebounded since then. Oil prices were also down by more than 70 percent in December 2008 from their peak in mid-2008, but have also recovered since then. Only consumer savings increased, as households cut back or delayed large expenditures in the face of rising uncertainty and negative wealth effects from falling equity and housing prices.

Developing countries, on average, have fared better than the industrialized world (table 1.1). They have overall managed to avoid sliding into a recession, and the World Bank estimates developing economies to have grown by 1.2 percent in 2009. Even excluding China and India, the economic contraction of 2.2 percent is less severe than the recession experienced in high-income countries.

Developing countries have been hit unevenly, however. Europe and Central Asia—heavily dependent on trade and investments from the European Union—was the hardest hit by the abrupt reversal of capital flows and

<table>
<thead>
<tr>
<th>Table 1.1 The Global Economic Outlook, 2007-2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage change from previous year</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Real GDP growth (^a)</th>
<th>2007</th>
<th>2008</th>
<th>2009(^b)</th>
<th>2010(^c)</th>
<th>2011(^d)</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>3.8</td>
<td>1.7</td>
<td>-2.2</td>
<td>2.6</td>
<td>3.2</td>
</tr>
<tr>
<td>High income</td>
<td>2.6</td>
<td>0.5</td>
<td>-3.2</td>
<td>1.7</td>
<td>2.3</td>
</tr>
<tr>
<td>Developing countries</td>
<td>7.6</td>
<td>5.7</td>
<td>1.2</td>
<td>5.1</td>
<td>5.6</td>
</tr>
<tr>
<td>East Asia and Pacific</td>
<td>10.1</td>
<td>8.0</td>
<td>6.7</td>
<td>8.2</td>
<td>8.2</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>7.1</td>
<td>4.3</td>
<td>-6.1</td>
<td>1.9</td>
<td>3.0</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>5.5</td>
<td>3.9</td>
<td>-2.5</td>
<td>3.0</td>
<td>3.6</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>5.3</td>
<td>5.8</td>
<td>3.0</td>
<td>3.4</td>
<td>4.1</td>
</tr>
<tr>
<td>South Asia</td>
<td>8.5</td>
<td>5.7</td>
<td>5.3</td>
<td>6.4</td>
<td>6.6</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>6.5</td>
<td>4.9</td>
<td>0.7</td>
<td>3.8</td>
<td>4.9</td>
</tr>
</tbody>
</table>

Memorandum items

Developing countries

Excluding transition countries | 7.6 | 5.7 | 2.5 | 5.6 | 6.0 |
Excluding China and India     | 6.1 | 4.4 | -2.2| 3.0 | 3.9 |


\(^a\) GDP in 2005 constant dollars; 2005 prices and market exchange rates.
\(^b\) Estimate
\(^c\) Forecast
weaker demand for exports. Latin America and the Caribbean has also suffered from the withdrawal of foreign funds, tumbling equity markets and plummeting exchange rates, but has weathered the crisis armed with stronger fiscal, currency and financial fundamentals than in the past. Other developing regions have managed to avoid recession altogether, even though their economic growth has slowed. With little direct exposure to the sources of financial crisis, but still affected through its integration with industrialized countries via trade and capital flows, the East Asia and Pacific region fared relatively well, as did South Asia. Although less directly affected by the crisis, growth in the Middle East and North Africa region slowed as local equity and property markets came under intense pressures, while Sub-Saharan Africa suffered from the decline in commodity prices.

As the global economy begins to recover in 2010, growth in developing economies is again forecast to outpace high-income countries’. East Asia and Pacific is expected to grow the fastest, followed by South Asia, and Sub-Saharan Africa. The biggest turnaround is expected to take place in those developing regions whose economies have suffered the most, namely, Europe and Central Asia, as well as Latin America and the Caribbean.

**Trends in Foreign Direct Investment**

The global financial and economic crisis has severely dented the surge of private capital flows to developing countries—including FDI—observed over the past decade (annex 1). Given its long-term nature, FDI has been more resilient than other forms of private capital inflows, and is expected to remain the main source of private capital to developing countries. 6 As the world economy strengthens, FDI flows are expected to rebound, with emerging markets capturing a growing share of global FDI.

**Private capital and FDI into developing countries**

Net private capital flows to developing countries—FDI, portfolio equity, and debt—grew rapidly from 2003 until the first half of 2008, peaking at $1.2 trillion in 2007 (table 1.2). FDI accounted for the lion’s share of net private capital flows to developing countries during this decade (figure 1.1 and annex 2).

The increase in FDI to developing countries up until 2007 mirrored global trends in FDI flows (figure 1.2), surging on the back of strong global macroeconomic performance, high corporate profits, financial liquidity and lower credit

### Table 1.2 Net private capital inflows to developing countries, 2001-2008

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net private and official inflows</td>
<td>224.2</td>
<td>162.4</td>
<td>258.6</td>
<td>370.7</td>
<td>498.7</td>
<td>668.3</td>
<td>1157.7</td>
<td>727.3</td>
</tr>
<tr>
<td>Net private inflows</td>
<td>197.3</td>
<td>156.8</td>
<td>269.1</td>
<td>396.5</td>
<td>569.7</td>
<td>739.2</td>
<td>1157.5</td>
<td>706.9</td>
</tr>
<tr>
<td>Net equity inflows</td>
<td>172.3</td>
<td>161.5</td>
<td>181</td>
<td>254.7</td>
<td>347.2</td>
<td>462.7</td>
<td>658.6</td>
<td>599</td>
</tr>
<tr>
<td>Net FDI inflows</td>
<td>166</td>
<td>152.5</td>
<td>155.5</td>
<td>216</td>
<td>279.1</td>
<td>358.4</td>
<td>520</td>
<td>583</td>
</tr>
<tr>
<td>Net portfolio equity inflows</td>
<td>6.3</td>
<td>9</td>
<td>25.5</td>
<td>38.7</td>
<td>68.1</td>
<td>104.3</td>
<td>138.6</td>
<td>15.7</td>
</tr>
<tr>
<td>Net debt flows</td>
<td>51.9</td>
<td>0.9</td>
<td>77.6</td>
<td>116</td>
<td>151.5</td>
<td>205.6</td>
<td>499.1</td>
<td>128.3</td>
</tr>
<tr>
<td>Official creditors</td>
<td>26.9</td>
<td>5.6</td>
<td>-10.5</td>
<td>-25.8</td>
<td>-71</td>
<td>-70.9</td>
<td>0.2</td>
<td>20.4</td>
</tr>
<tr>
<td>Private creditors</td>
<td>25</td>
<td>-4.7</td>
<td>88.1</td>
<td>141.8</td>
<td>222.5</td>
<td>276.5</td>
<td>498.9</td>
<td>107.9</td>
</tr>
</tbody>
</table>


6 Estimate
spreads, booming stock markets and, more recently, rising commodity prices.

Besides riding on global FDI trends, developing countries have also become more attractive investment destinations, given their growing weight on the global stage, investment opportunities, improved macroeconomic fundamentals, increased openness to foreign investment and improving overall business environment. Over the 1990s, on average, the emerging world absorbed a quarter of global FDI flows (compared with 12 percent in the second half of the 1980s); that share increased to 29 percent during 2000–2009, and reached a record 45 percent in 2009 (figure 1.2). Other projections even expect that, for the first time, the emerging world will absorb more than half of global FDI in 2009.7

The geographical distribution of FDI flows to the developing world, however, is uneven. Four countries—the BRICs—have together absorbed 46 percent of FDI flows into all emerging markets during 2000–2008, and 51 percent in 2008 alone. This concentration mirrors the economic weight of these countries in the developing world, and they are expected to remain the focus of foreign investment flows to emerging markets going forward.

By sector, the distribution of FDI to developing countries is also uneven, mirroring global trends. The service sector accounts for just over two thirds of the stock of FDI in emerging markets (mostly in financial services), while the manufacturing and primary sectors account for a quarter and 6 percent, respectively.8

Figure 1.1 Net private capital inflows to developing regions, 2005-2008

Source: World Bank 2009 (see also annex 2).
Note: 2008 figures based on staff estimates.
Developing countries as a source of FDI

Over the past few years, MNEs headquartered in emerging markets have established themselves as significant overseas investors, expanding in both industrialized and other developing countries. The share of developing countries in global FDI outflows increased from 1.4 percent in 2000 to 10.8 percent in 2008. Starting from a low base, the growth of outward FDI from the developing world began to accelerate in 2003 in tandem with global FDI flows. Between 2003 and 2008, FDI outflows from developing countries increased more than eight fold, reaching an estimated $198 billion in 2008 (figure 1.3). As is the case with inward FDI, outward FDI from emerging markets is also sourced from a few countries, the BRICs, which together accounted for 64 percent of emerging market outflows during 2000-2008 (figure 1.3), and 73 percent in 2008 alone. In 2008 FDI outflows from the developing world were led by China ($53.5 billion), the Russian Federation ($52.6 billion), Brazil ($20.5 billion), and India ($17.7 billion) (box 1.1). On a smaller scale, other developing countries have also emerged as significant foreign investors: for example, South Africa’s outward FDI totaled $10.5 billion in 2006 and 2007, before turning negative in 2008 with a net divestment of $3.5 billion.

Investors from emerging markets often have a shorter history of investing abroad than those from industrialized countries, and their investments tend to be concentrated in countries in the same region, often in those with close cultural links. Yet a growing number of these emerging MNEs are venturing further afield in search of new markets and resources. India’s FDI stock into emerging markets, for example, used to be concentrated in Asia, which accounted for a 75 percent share in the mid 1990s. By 2007, Asia’s dominant position had eroded to just 39 percent, as Indian MNEs ventured into Africa.

**Figure 1.2 Global net FDI inflows, 1986-2009**

![Graph showing global net FDI inflows from 1986 to 2009](image)

Source: World Bank 2009, and latest revised estimates (see also annex 1). Note: 2008 figures based on staff estimates. 2009 figures based on forecasts.
Box 1.1 Recent trends in FDI from the BRICs

The BRICs saw their combined outward FDI flows skyrocket from $29.6 billion in 2005 to $144.3 billion in 2008 (figure 1.3). In 2008, the BRICs together accounted for 73 percent of emerging market FDI outflows.

FDI from the BRICs received a major boost from the adoption in the early part of this decade of China’s “go global” policy, aimed at inducing domestic enterprises to invest globally. China’s FDI is concentrated in the services sector (70 percent), followed by mining/oil (13 percent) and manufacturing (8 percent). Chinese FDI is carried out mostly by state-owned enterprises, which enables them to overcome financial constraints when investing abroad.

Indian outward FDI is also a relatively recent phenomenon, having increased from negligible levels in the middle of this decade to nearly $18 billion in 2008. Carried out mostly by publicly listed private-sector firms, Indian FDI is distributed across a range of sectors, such as steel and pharmaceuticals, information technology and business services. One notable exception is the energy sector, in which most Indian FDI has been carried out by the state-owned Oil and Natural Gas Corporation Ltd., the largest multinational in India (ranked according to size of foreign assets), through its subsidiary ONGC Videsh Ltd. Brazilian FDI increased from low levels in the middle of this decade to $21 billion in 2008. About half of the largest Brazilian MNEs focus on Latin America, where Brazil is the top investor in several countries. By sector, Brazil’s FDI position is concentrated in financial services, followed by manufacturing of industrial products. Its largest MNEs, however, are concentrated in the natural resource sector. Most of Brazil’s MNEs are private companies.

The Russian Federation has been viewing outward FDI more favorably in recent years. Russian FDI abroad more than quadrupled between 2005 and 2008, with the largest MNEs concentrated in metals and oil and gas. The majority of these companies are privately owned, but a number of them (e.g. Gazprom) are controlled by the state. Most FDI goes to countries in the same region, especially the Commonwealth of Independent States. When investing abroad, Russian MNEs seek to access foreign markets, natural resources and new technologies and knowhow. Russian oil and gas companies seek to engage in downstream integration via the establishment or acquisition of processing, storage and distribution facilities.

Sources: Davies (2009); Athreye Suma and Sandeep Kapur (2009); Indian School of Business and Vale Columbia Center on Sustainable International Investment (2009); Fundação Dom Cabral (FDC) and Vale Columbia Center on Sustainable International Investment (2007); Deloitte (2008); Moscow School of Management Skolkovo and Vale Columbia Center on Sustainable International Investment (2008); Skolkovo Institute for Emerging Market Studies (2009).
competitiveness in their home markets and through international trade, are seeking to reach new markets and resources through FDI. In many developing countries, companies have reached a “take off” stage, a critical mass in terms of size, with enough resources to become global players. Increasingly relaxed regulations on outward investment and removal of foreign exchange controls, as well as general encouragement by their own governments, have facilitated the process of investing overseas.

The impact of the crisis on FDI

The financial crisis has severely curtailed private capital flows to developing countries, reversing the upward trends observed over the past few years. Yet FDI flows to emerging markets are proving resilient, and rebounds are anticipated in 2010.

Net private capital inflows to developing countries contracted by almost 40 percent by the end of 2008 to $707 billion (4.4 percent of developing-country GDP), (table 1.2). All developing regions, except the Middle East and North Africa, faced declines (figure 1.1), but emerging markets in Europe and Central Asia suffered the most from the financial crisis, accounting for 50 percent of the decline in capital flows to all developing countries. Net portfolio equity flows plummeted by 90 percent, while private debt flows contracted by 76 percent. The situation worsened in 2009 with another decline of net private capital flows to developing countries, projected to sink to $363 billion.

FDI has been more resilient than other forms of private capital, however. Despite the reduction in global FDI flows (box 1.2), foreign direct investment into the developing world continued to increase in 2008 (table 1.2). An additional $63 billion of FDI flowed into emerging markets in that year, equivalent to 3.5 percent of their combined GDP. The largest increase was registered in South Asia (with FDI flows to India rising by more than 50 percent), followed by Latin America and Sub-Saharan Africa. Nearly all developing regions received record levels of FDI inflows in 2008. The high commodity prices that persisted through at least the first half of the year continued to support investment in resource-rich developing countries, such as Brazil, Chile, Indonesia and Peru (annex 2).

FDI flows to emerging markets started slowing during the second half of 2008. In the first quarter of 2009, cross-border M&A in the developing world (mostly by developed-country MNEs) declined to $16 billion, compared with more than $30 billion in the previous two years. (FDI through cross-border M&As typically accounts for about 30 percent of all FDI flows into developing countries). In 2009, tight credit conditions, weak global demand and low profitability owing to the recession are certain to limit the ability and willingness of MNEs to expand in the developing world. The World Bank projects FDI flows into developing countries to decline by 34 percent to $385 billion in 2009. Yet, FDI flows to developing countries remained more resilient than flows into industrialized countries in 2009 (where the World Bank estimates FDI inflows shrank by 50 percent).

The financial crisis also put a break on the growth in FDI flows from emerging markets. Estimates show that FDI outflows from emerging markets increased in 2008 (figure 1.3), but are expected to decline in 2009. In Brazil, FDI outflows declined by 87 percent during the first five months of 2009. In India, FDI outflows contracted by 14 percent in the first half of 2009, compared with the corresponding period in 2008. The OECD forecasts M&A spending—an early indicator of trends in FDI—by Brazil, China, India, Indonesia, the Russian Federation and South Africa to decline by over 80 percent to $21 billion in 2009 (down from $120 billion in 2008).

Like their developed country counterparts, many MNEs from emerging markets faced financial difficulties during...
Prior to the financial crisis, a growing number of MNEs based in developing countries enjoyed access to international debt markets for the financing they needed to invest overseas. The credit crunch, liquidity constraints, declining profitability and general economic uncertainty all affected their ability to finance new investments abroad through that route. Moreover, the global recession and commodity price decline from last year’s all-time high curtailed revenues and profits. The decline in FDI outflows from developing countries, however, may well be relatively less severe than in the outflows from developed countries, as emerging MNEs may turn to domestic financial markets, generally better shielded from the impact of the crisis than international ones, to raise capital. Even before the crisis, China’s state-owned MNEs were relying on state-owned domestic banks rather than foreign financial markets to finance their investment projects overseas, and will continue doing so.

Outlook for foreign direct investment

In spite of the severe impact of the crisis on FDI in 2009, the picture emerging for 2010 is cautiously optimistic, with global FDI expected to start recovering in line with the global economy. The World Bank projects FDI flows to developing countries to bounce back, reaching $440 billion in 2010—below the record levels registered in 2007 and 2008, but higher than the 2006 FDI inflows. The picture for FDI flows from developing countries is also optimistic, as MNEs based in emerging markets are expected to continue to shape the growth and pattern of global FDI in the future. China, despite the crisis, is renewing its efforts to encourage outward FDI as part of its “going global” strategy by relaxing foreign exchange restrictions, allowing domestic companies to borrow at home in foreign currency from a variety of sources, and easing regulatory procedures for outward investment.

Historically, FDI flows have contracted during downturns, but these reductions tend to be short lived. Longer-term trends in FDI are shaped by corporate strategies that emphasize establishing a presence in a range of countries to serve local markets, integrating supply chains located in different countries, accessing natural resources, knowhow and skills, and brand acquisition. Combined with the continued openness to FDI and the dismantling of business obstacles, all of these factors point to a continued upward trend in FDI flows in the longer term.

Corporate Perspectives on Foreign Direct Investment

During the second quarter of 2009 MIGA commissioned a set of surveys of executives from MNEs to gauge
their views on future investments in emerging markets; how political risks feature amongst the concerns and factors that constrain their investment plans; and the mechanisms used to mitigate political risk concerns (annexes 3 and 4 for details on these surveys). A survey of global investors was undertaken by the Economist Intelligence Unit on behalf of MIGA (the MIGA-EIU Political Risk Survey 2009, hereinafter referred to as the global survey). Another survey of investors based in BRIC countries was undertaken by the Vale Columbia Center on Sustainable International Investment along the same lines (the MIGA-VCC Political Risk Survey in the BRICs, hereinafter the BRIC survey). The following section summarizes the views of respondents with regards to cross-border investment plans in the short and medium terms. Investors’ views on political risk are summarized in chapter 2.

Foreign Direct Investment Plans

As discussed above, the global financial crisis resulted in a decline in FDI into emerging markets in 2009. However, this decline appears to be more related to the tightening of financial markets—which has made funding scarcer and more expensive—than to investors’ reassessment of the long-term business rationale for investing in emerging markets.

The global survey suggests that investors have maintained a positive outlook for FDI in general. Around 40 percent of them expect their firms to increase foreign investment this year, and a further 20 percent expect investment plans to remain in line with 2008. Around 65 percent of investors surveyed expect their foreign investment to increase over the next three years (figure 1.4). These figures suggest that investors do not anticipate the global financial and economic turmoil to affect their investment prospects for long. This is in line with macroeconomic projections (presented in the section above) expecting global FDI to start rebounding in 2010.

Investments in the short term will likely continue to be unevenly affected in different sectors (figure 1.5). Having faced a substantial drop in the price of commodities, almost half the surveyed investors in primary industries expect their foreign investments to decrease this year, in many cases by more than 20 percent when compared to 2008. In contrast, more than 60 percent of investors in other sectors, such as the financial industry, services and manufacturing, plan to increase or at least maintain foreign investments this year. In the next three years, however, a higher proportion of investors across all sectors expect to increase their foreign investments. This suggests that investors continue to maintain a positive outlook on business ventures in foreign markets.

Investment Intentions to Emerging Markets

Besides expecting their foreign investments to pick up relatively quickly, respondents of the global survey remain optimistic about economic prospects in emerging markets. In fact, 43 percent of respondents expect their firms to redirect investments away from developed markets and into developing ones over the next three years, confirming a robust interest in emerging market destinations (figure 1.6). Investors in the manufacturing sector are the keenest to redirect their existing investments to emerging markets over the next three years, while 39 percent expect to do so this year. Companies from the United States and the United Kingdom show a higher propensity than investors from other countries to make that shift over the coming year—35 percent and 37 percent, respectively.

The BRICs are poised to continue receiving the lion’s share of FDI into emerging markets (figure 1.7). Almost
60 percent of the investors surveyed are already present in China, and almost half are present in India. Investments in the Russian Federation and Brazil are less prevalent, with 40 percent and 39 percent of respondents having a presence there. Other investment destinations trail behind: Poland (21 percent), Mexico (16 percent), South Africa (14 percent) and Turkey (14 percent). Investors’ responses correspond closely to country rankings by actual FDI inflows.

Outside the BRICs, Turkey and South Africa appear to attract increasing interest over the next three years, whereas Poland and Mexico—which have been hit hard by the global economic downturn—slip back. Among the investors surveyed, there is a noticeable decline in the relative attractiveness of Eastern European economies. This could reflect, among other things, investors’ concerns over the impact of the global financial crisis on these countries at the time of the survey.

The survey highlights that FDI remains regional to some degree. Latin American destinations, for example, still feature more prominently in investments from US firms than in those from other regions—25 percent compared to an average of 19 percent for all investors—even though

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**Figure 1.5 Changes in foreign investment plans by sector**
Percent of respondents

<table>
<thead>
<tr>
<th>Sector</th>
<th>This year</th>
<th>Next three years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utilities, transport and communications</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial sector</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

How do you expect your company’s planned investments abroad to change this year compared with last year and over the next three years compared with the previous three years?

*Source: MIGA-EIU Political Risk Survey 2009.*

---

**Figure 1.6 Changes in foreign investment plans by destination**
Percent of respondents

<table>
<thead>
<tr>
<th>Destination</th>
<th>This year</th>
<th>Next three years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shift from developed to emerging markets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No change</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shift from emerging to developed markets</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Do you expect your company to shift its foreign investments from emerging to developed markets, or vice versa?

*Source: MIGA-EIU Political Risk Survey 2009.*
the share of European investment in that region has been rising. Likewise, investors from Western Europe dominate investment into Eastern Europe, which is a top investment destination for a third of Western European investors, compared to 26 percent on average. The survey findings suggest that this pattern is unlikely to change over the next three years.

Figure 1.7 Top ten investment destinations
Percent of respondents

What are the five main emerging market destinations for your company’s direct investments abroad today?

And, in what five emerging markets does your company plan the highest level of new investment over the next three years?

Note: Percentages add up to more than 100 percent due to multiple selections.

Figure 1.8 Changes in foreign investment plans by source
Percent of respondents

How do you expect your company’s planned investments abroad to change this year compared with last year and over the next three years compared with the previous three years?

Investors from Emerging Markets and FDI

The emerging-market MNEs surveyed appeared to be more bullish than their counterparts in developed countries regarding their investment plans. A higher proportion of them expected their investments overseas to increase or remain the same over the next year than investors from the developed world. The gap in investment intentions between emerging-market investors and those from developed countries was even more pronounced over the medium term: some 80 percent of emerging market respondents planned to increase investment over the next three years, compared with just over 60 percent of developed country respondents (figure 1.8).

The BRIC survey confirms the optimism of emerging-market investors.21 Although a third of the BRIC respondents did not plan any changes in their companies’ investment plans this year (figure 1.9), 49 percent intended to increase investments moderately or substantially (55 percent of the Chinese MNEs, half of the Brazilian MNEs and 48 percent of the Indian MNEs). These intentions intensified over the next three years, with some three quarters of respondents planning a substantial or moderate increase in FDI. Chinese investors appeared the most bullish, while Russian respondents were the most cautious, with only 30 percent or so expecting to increase investments this year and over the next three years. While the crisis has dampened the growth of FDI outflows from developing countries this year, the BRIC survey findings suggest this may be short lived—at least for Chinese, Indian and Brazilian investors.

Investor surveys suggest robust optimism about investment prospects in developing countries over the next three years, sustained by signs that a recovery of the global economy is underway. A more pessimistic economic scenario cannot yet be excluded, however, and risks of reversal persist. Persistent economic imbalances could become more apparent as emergency policy measures begin to wane, and unsustainable debt positions have to be unwound. Renewed concerns regarding the sustainability of the rebound would affect private capital flows, including FDI. For now, the expected growth rebound in emerging markets, while uneven, appears strong enough to sustain survey respondents’ investment intentions.

**Figure 1.9 Foreign investment plans of investors from the BRICs**

Percent of respondents

![Bar chart showing foreign investment plans of investors from the BRICs]

**How do you expect your company’s planned investments abroad to change this year compared with last year and over the next three years compared with the previous three years?**

**Source:** MIGA-VCC Political Risk Survey in the BRICs 2009.
Foreign direct investment is defined as an investment involving a long term relationship and reflecting a lasting interest and control by a resident entity in one economy in an enterprise resident in an economy other than that of the foreign direct investor. It comprises equity investment, reinvested earnings and intra-company loans.

The surveys did not include respondents representing sovereign and private equity funds. Investor views presented in this report cover MNEs’ perspectives only.

As of September 25, 2009, 12 out of 42 emerging market sovereigns had a negative outlook, compared with 16 out of 43 six months ago. Standard and Poor’s (2009).

All data in this chapter are from World Bank (2009), unless otherwise specified.

For a broader discussion of the financial crisis and its impact on the world economy, see World Bank (2009).

The resilience of FDI flows—comprising for statistical purposes of equity investment, reinvested earnings and intra-company loans—can be traced primarily to its equity component. The volatility of the reinvested earnings and intra-company loans can be quite significant, especially at times of economic distress (World Bank, 2009, Box 2.2).


UNCTAD (2009d), annex table A.1.4

Cheng and Ma (2007) and Davies (2009).

Lima and de Barros (2009). The data for Brazil exclude tax havens.


For a discussion of the drivers of FDI from developing countries, see World Bank (2006).

The Financial Times Global 500 list, which ranks companies by market capitalization, showed that firms from developing countries accounted for 17 percent of the world’s leading companies in 2008, up from minuscule levels a few years ago. For banking and finance, which in 2008 became the leading sector for FDI worldwide, some 20 percent of The Banker’s largest 1,000 banks and more than one-third of the top 20 banks were from developing countries.

Luo, Xue and Han (2009).

World Bank (2009).

Lima and de Barros (2009).

Reserve Bank of India (2009).

OECD (2009).

World Bank (2009).

See UNCTAD (2009d) and MIGA-EIU Political Risk Survey (2009).

Davies (2009).

Only one in ten investors surveyed is considering the reverse over the next three years; most of these firms are in the primary or financial sectors and are headquartered in North America or Western Europe.

See annex 4 for details on the MIGA-VCC Political Risk Survey in the BRICs.