

TRANSNATIONAL CORPORATION 'S PERCEPTION OF THE GLOBAL INVESTMENT CLIMATE

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Abstract: Reflecting the general trend, transnational corporations (TNCs) across all major sectors are similarly cautious about the international investment climate in 2013. Medium-term prospects appear stronger across all sectors, with pronounced improvements in overall optimism in the primary and service sectors for 2014 and 2015, compared to 2013 levels. FDI expenditures are set to increase for 40 to 50 per cent of the companies. However, at the same time 10 to 20 per cent of the companies will reduce their investments in the short term; primary sector TNCs may significantly expand their investment plans in the medium term.

Key words: foreign direct investment, transnational corporation, investments.

JEL classification: F21

Short-term foreign direct investment (FDI) expenditure plans vary across sectors, according to the survey results (figure 1). Manufacturing transnational corporations (TNCs) were the most bullish about their foreign investments in 2013, with roughly 50 per cent of respondents indicating that they will be increasing their FDI expenditures over 2012 levels. In contrast, only 30 per cent of TNCs in the primary sector and 44 per cent of those in services expected an increase. For 2015, only primary sector corporations reviewed substantially their investment plans, with almost 60 per cent of them foreseeing an increase of their foreign investments. In spite of their rising optimism, corporations in the other sectors maintained their expenditure plans constant over the years with roughly half of manufacturing TNCs and 44 per cent of service TNCs increasing their foreign budgets in 2015 compared to 2012 levels.

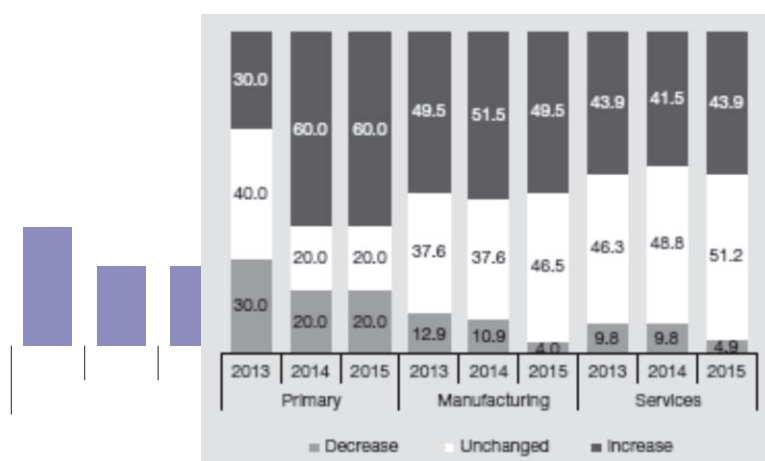


Figure no 1. TNCs' intended changes in foreign direct investment expenditures compared to 2012 levels, by sector, 2013–2015 (Percentage of respondents)

Source: UNCTAD survey

Overall trends, however, reflect a more complex spectrum of FDI prospects by sector. In the primary sector, nearly 20 per cent of respondents forecast cuts in their FDI expenditures in 2014 and for 2015 as well. These percentages are much higher than

those in other sectors, suggesting that the growth of FDI activity in the primary sector may slow in the medium term as TNCs consolidate the numerous acquisitions they have made in recent years. Notably, in the services sector a relatively high level of respondents (roughly 5 in 10) reported no expected change in FDI expenditures over the period.

FDI budgets are set to expand across home regions, though developed- country TNCs express high uncertainty about global investment climate.

For 2013 global perspectives are very uncertain with about half of TNCs across the world being either neutral or undecided about the investment climate. Over the medium term, TNCs from the developed world seem to retain their uncertainty about global perspectives, with more than 56 per cent of them declaring to be undecided or neutral for 2014 prospects (figure no.2). In contrast, TNCs from the South (developing and transition economies) are more optimistic. Differences in perceptions across country groups are small for 2015, where more than half of all TNCs are optimists. Strikingly, in spite of their pronounced uncertainty, TNCs in developed economies were less pessimistic than their peers in developing and transition economies about the global investment climate in 2014 and 2015 (6 per cent in 2014 and 2 per cent in 2015, compared with 12 per cent and 9 per cent).

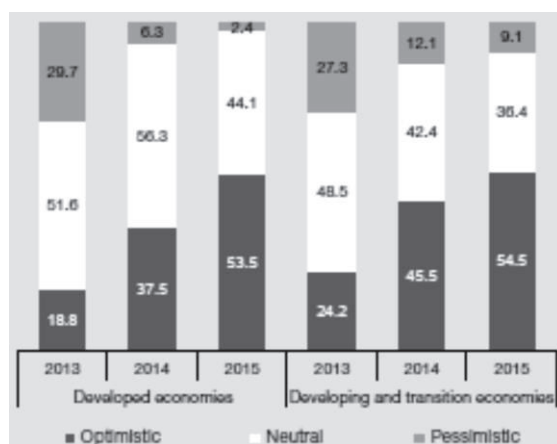


Figure no. 2. TNCs' perception of the global investment climate, by home region, 2013–2015 (Percentage of respondents)
Source: UNCTAD survey

Despite uncertainties for 2013, more than half (57 per cent) of respondents from developing countries and about 43 per cent of those from developed countries forecast an increase in their FDI expenditures over 2012 levels. Investors' forecast of their foreign expenditures is quite stable over the short term with only minimal changes in the share of those who would reduce their investment levels in the medium term. In particular, about 3 per cent of developed-country TNCs expects their FDI budgets to decline in 2015, compared with 12 per cent of TNCs from developing countries. In spite of this difference, investors in developed economies seem to suffer from the global economic slowdown and their countries' fiscal uncertainties result in a very cautious approach to foreign investment. These dynamics may reinforce the long-term trend of greater participation by TNCs from developing and transition economies in global FDI flows (figure no 3).

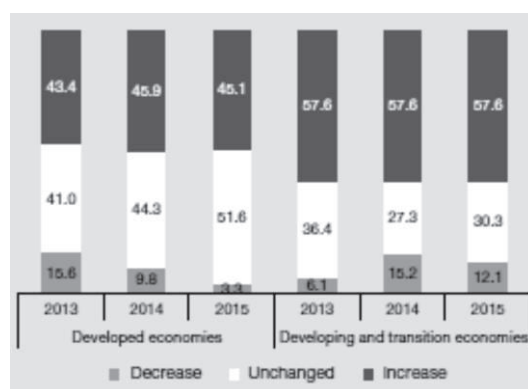


Figure no. 3. TNCs' intended changes in foreign direct investment expenditures compared to 2012 levels, by home region, 2013–2015 (Percentage of respondents)

Source: UNCTAD survey

Reflecting these trends, Investment promotion agencies (IPAs) largely see developed-country TNCs as the most promising sources of foreign direct investment (FDI) in the medium term (figure no. 4), although developing economies are becoming more important as inward investors. Indeed, this year, 60 per cent of IPA respondents ranked China as the most promising source of FDI, thanks largely to the rapid increase of its outward FDI in recent years. The United States, Germany, the United Kingdom of Great Britain and Northern Ireland, Japan and France ranked as the most promising developed-economy investors, underscoring their continuing role in global FDI flows. India, the Republic of Korea, the Russian Federation, the United Arab Emirates and Turkey (for the first time) are also seen as major developing country sources of FDI, while Brazil fell out of the ranking, most likely because of last year's slower outflow activity.

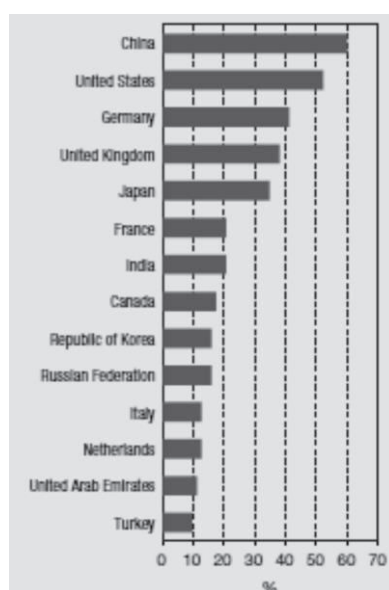


Figure no. 4 IPAs' selection of most promising investor home economies for foreign direct investment, 2013–2015 (Percentage of IPA respondents selecting economy as a top source of FDI)

Source: UNCTAD survey

Developing and transition economies continue to be important destinations for global FDI flows in the medium term.

IPAs, like TNCs, were also cautious about the global investment situation in 2013, especially those located in developed countries. Only roughly one third of respondents in developing and transition economies and 20 per cent from developed economies were optimistic about FDI flows for the year (figure no. 5). Low optimism about the global situation did not, however, translate to expectations about inflows in

their country, with more than 55 per cent of respondents in both groups of economies expressing optimism in that regard. However, the view from IPAs for inward FDI differed by region, in particular with regards to the perspective target industries. IPAs in developed economies anticipate good prospects for FDI in business services, such as computer programming and consultancy. African IPAs expect further investments in the agriculture sector, while Latin American IPAs emphasize the extractive industry, tourism and services. Asian IPAs point to prospects in a wider range of industries for inward FDI, including agriculture, oil and gas, food products, construction and transport. Transition economy IPAs have high expectations for the machinery and textiles industries, most probably positioning themselves as major suppliers to European TNCs.

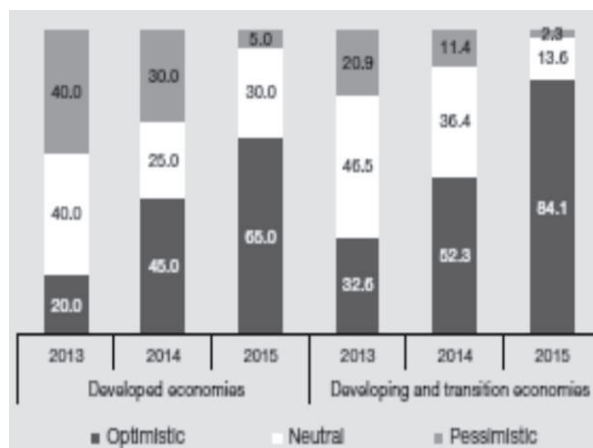


Figure no. 5. IPAs' perception of the global investment climate, by host region, 2013–2015 (Percentage of respondents)

Source: UNCTAD survey

For the medium term, IPAs – regardless of location – exhibited a rising optimism, although those in developing and transition economies were clearly the most optimistic when it came to their own countries' prospects for FDI inflows in 2015.

This optimism is not unwarranted. TNCs that respond to the survey have increasingly ranked developing-country host regions as highly important (figure no. 6). Developing Asia scores particularly well, with about 60 per cent of respondents rating East and South-East Asia as “very” or “extremely” important and 42 per cent giving the same rating to South Asia. Also Latin America is set to become increasingly important in the medium term, being selected as such by 44 per cent of TNCs. The rising importance of these regions as destinations for FDI does not come at the expense of developed regions. The survey results suggest that the European Union and North America remain among the most important regions for FDI by TNCs.

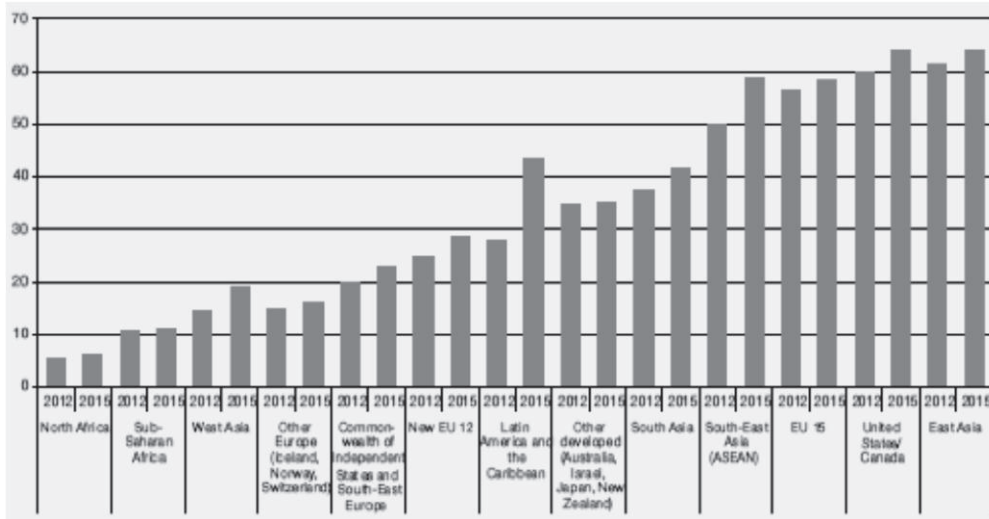


Figure no. 6. Importance of host regions to TNCs, 2012 and 2015
 Source: UNCTAD survey

The importance of developing regions to TNCs as locations for international production is also evident in the economies they selected as the most likely destinations for their FDI in the medium term. The ranking of the top five host economies is the same as last year, with China leading the list and cited by 46 per cent of all respondents, followed closely by the United States, cited by 45 per cent. Developing countries make up four of the top five host economies (figure no. 7). Six of the top 10 prospective host countries also come from the developing world, with Mexico appearing for the first time. Among developed countries, Japan jumped three positions largely because reconstruction efforts after the 2011 tsunami and recent expansionary monetary policies have together improved country’s economic growth prospects and increased its attractiveness for foreign investment in the medium term. At the same time, Australia, the Russian Federation and the United Kingdom slipped down the rankings from last year’s survey, while Germany gained three positions.

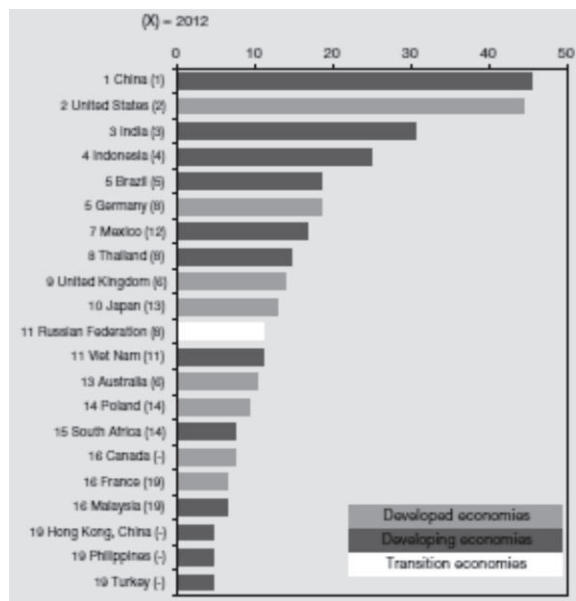


Figure no. 7. TNCs’ top prospective host economies, 2013–2015 (Percentage of respondents selecting economy as a top destination)
 Source: UNCTAD survey

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