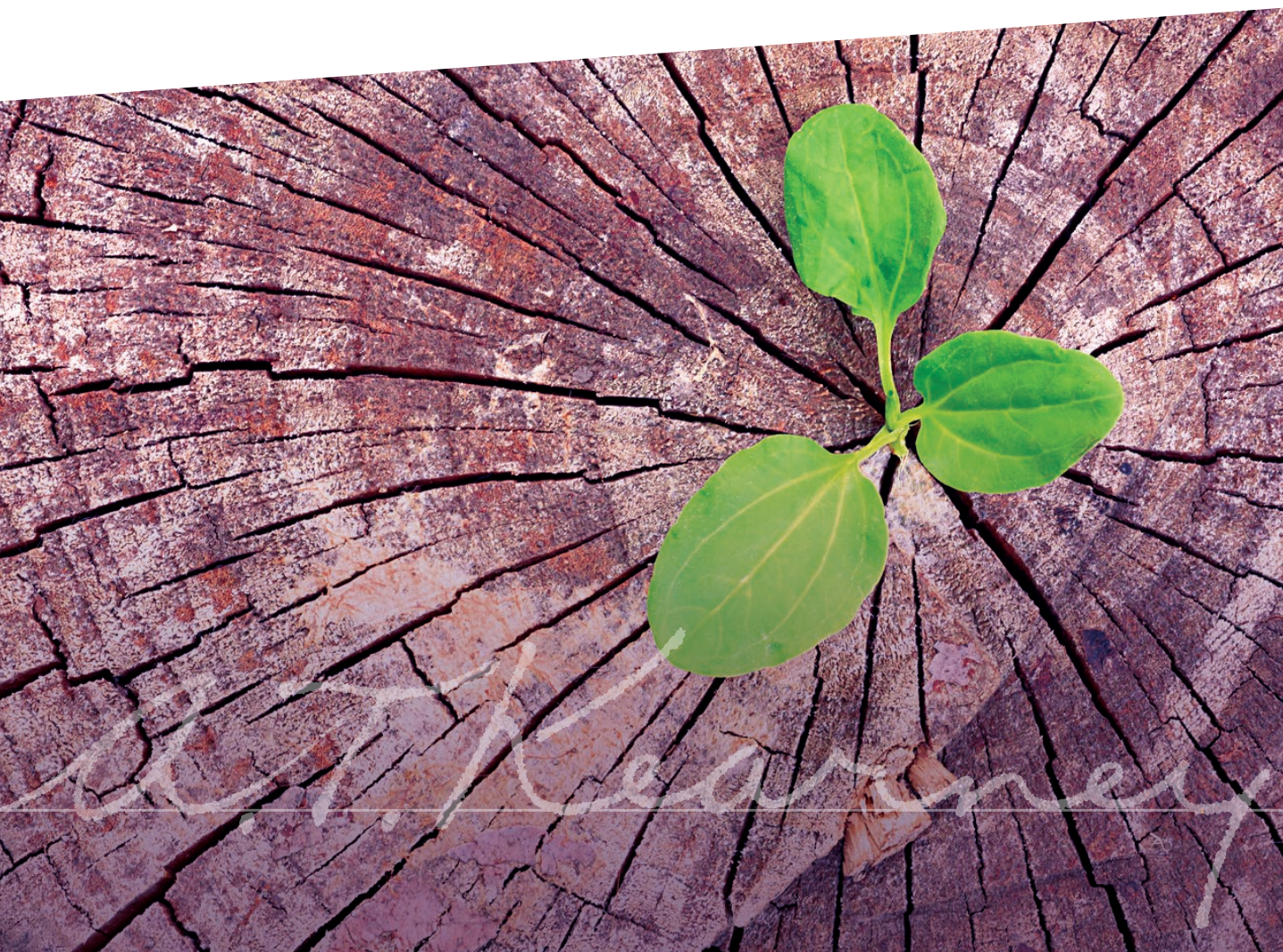


Facing a Growing Paradox

The 2019 A.T. Kearney Foreign Direct Investment Confidence Index®

Investor sentiments reveal a variety of paradoxes in the environment for FDI, many of which can be explained by the rise of the age of multi-localism.



Since we published *From Globalization to Islandization* in early 2016, my colleagues and I have asserted that the global operating environment is in the midst of a profound shift. Gone are the days in which ever-greater economic, political, and cultural integration was assumed to be inevitable. The forces pushing the world toward “islandization”—in which nationalist and protectionist sentiments drive economies to turn inward and become their own islands—have only grown stronger in the intervening years. Last year, we identified this new reality as the “age of multi-localism,” which is characterized by the growing preference for local communities, industries, products, cultures, and customs.

A variety of paradoxes arise for global companies as a result of this complex environment. One of the most interesting is the rise in the importance of cities in an era of nationalism. Populism and nationalism continue to drive policymaking—or more often, policy paralysis—at the national level in countries around the world. As a result, decision-making power is devolving to the local level, with mayors and other local officials increasingly positioned as the policy problem-solvers of the 21st century. Paradoxically, then, in an era of more nationalist fervor and rhetoric, the forces making the most waves are, in fact, not at the national level.

This shift away from attention at the national level is evident in this year’s FDI Confidence Index. Perhaps the most striking finding in this regard is that most investors do not start the process of determining where to invest at the country level. Rather, they focus first on the regional level or directly at the city level. And almost 60 percent of investors say they are now placing a stronger emphasis on urban areas as the basis of FDI destination selection than just two years ago. This focus makes sense in an age of multi-localism, as getting investments right at the local level becomes more important for business success.

The realities of investing in an age of multi-localism also help to explain some of the other paradoxes in the country rankings in our Index. For instance, large developed markets that are turning away from global or regional economic integration—such as the United States and the United Kingdom—remain crucial local markets in which companies need to succeed and therefore continue to attract significant investor interest, especially as cross-border frictions increase and global supply chains lose cohesiveness.

It is also important to note that the FDI Confidence Index represents investors’ future intentions and therefore picks up weak signals of possible future trends—as opposed to other indicators that measure current FDI flows and thus relate primarily to FDI decisions made years ago. It will be interesting to see if this trend grows stronger in the coming years.

As always, we welcome your views regarding the Index and our analysis.

A handwritten signature in black ink, consisting of a large, stylized 'P' followed by a horizontal line and a small flourish.

Paul A. Laudicina

Chairman, Global Business Policy Council
Partner and Chairman Emeritus, A.T. Kearney

Executive Summary

- **Paradoxes permeate the Foreign Direct Investment (FDI) Confidence Index results.** As elaborated in detail below, developed markets dominate the Index, but investors point to a variety of rising political and economic risks within these markets. While average scores increase the most for frontier and emerging markets, few of these markets rank among the top 25 countries for investment intentions. Investors continue to view rising geopolitical tensions as a probable risk this year but remain relatively bullish on the global economy. And despite investors consistently telling us in recent years that they plan to increase their levels of FDI, the recorded level fell once again in 2018. In addition, localism and cities are rising in importance in an era of growing nationalism. These paradoxes at the global level also create some seemingly counterintuitive results in the Index rankings.
- **The United States tops the Index for the seventh year in a row.** The United States marks its longest-ever run at the top of the Index this year, likely reflecting its large domestic market, continued economic expansion, competitive tax rates, and technological and innovation capabilities. Recent policy volatility may be diminishing US attractiveness somewhat, though, as the score gap between the United States and the next-highest ranked country decreases this year.
- **The top 10 likely destinations for FDI this year are relatively consistent with last year's results.** The top 10 countries on the Index remain unchanged from 2018, with the exception of Singapore displacing Switzerland. Germany retakes the number-two position, while Canada falls to third. The United Kingdom holds steady in fourth place, while France rises to capture fifth place. And China drops to seventh this year—its lowest ranking in the 20-year history of the Index. This year, therefore, marks the first time in which the top five spots are all developed markets. Asia Pacific markets—including Japan, China, Australia, and Singapore—dominate the rest of the top 10.
- **Developed markets dominate the Index again ...¹** Developed markets account for 22 of the 25 spots on the Index—hitting their highest-ever share of positions, even outpacing last year's record. European developed markets hold steady at 14 spots this year, while developed markets in Asia Pacific increase from five spots last year to six this year. The continued dominance of developed markets is likely linked to the fact that four of the top five factors that investors consider when choosing where to invest are related to governance and regulations. The only aspect unrelated to governance among the top five is technological and innovation capabilities, which also favors developed markets.
- **... even though investors perceive that risks are rising in developed markets.** Investors point to political instability in developed markets as the most likely risk this year, followed closely by an economic crisis in a developed market and a more restrictive business environment in a developed market. Investors see these possibilities as far more probable than the corresponding risks in emerging markets. The other top risk that investors identify this year is geopolitical tensions, although investors' estimates of the likelihood of such a risk occurring falls somewhat from previous years.

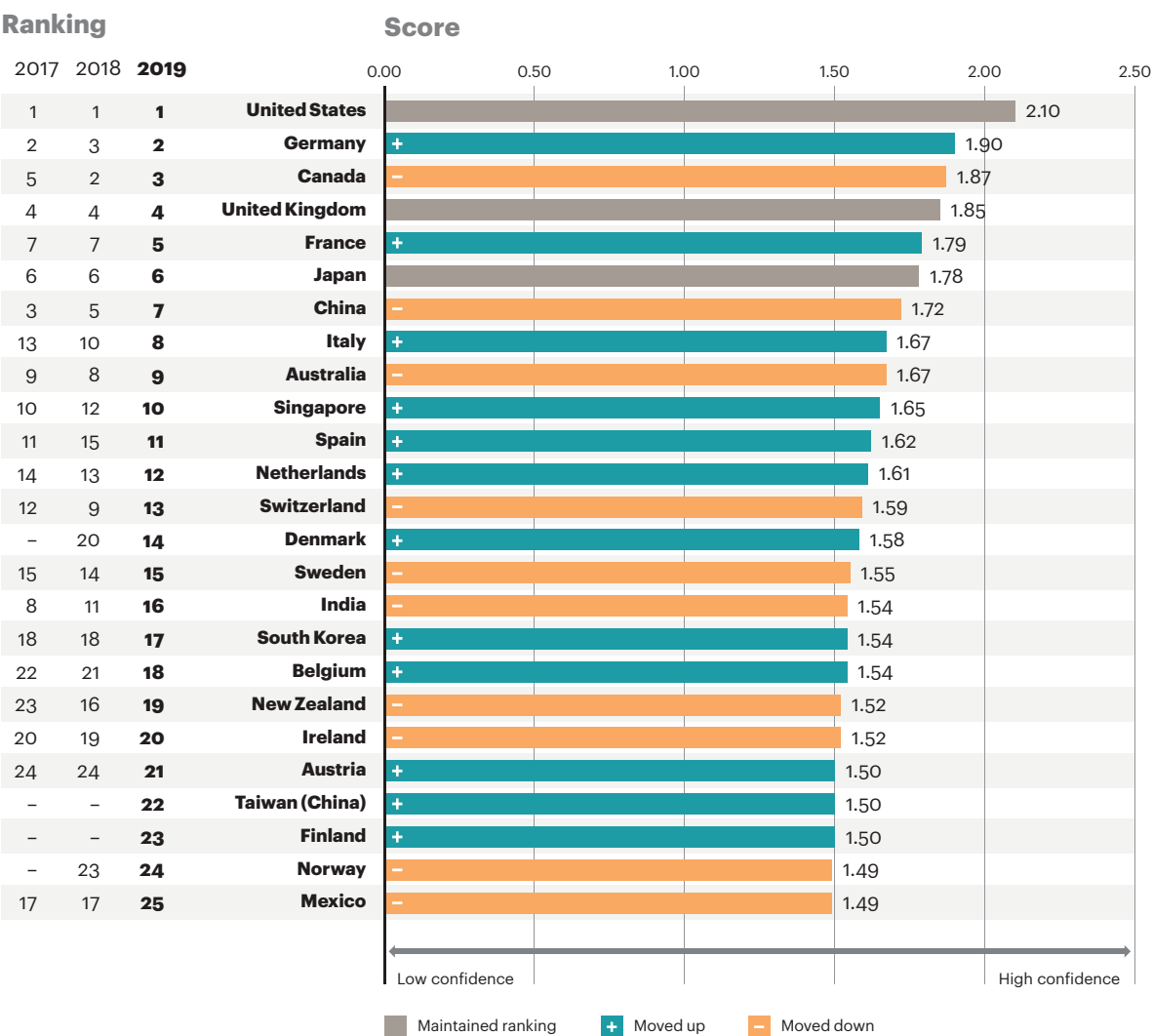
¹ Throughout this report, the term “developed markets” is used to describe the countries that the International Monetary Fund classifies as advanced economies based on high income per capita, high export diversification, and strong integration into the global financial system. Emerging markets are those countries that have middle levels of income per capita, offer a governance and regulatory environment that allows for some investment, and are somewhat integrated into the global financial system. Frontier markets are defined as developing economies with generally low levels of income per capita, less advanced regulatory environments, and weak integration with the global financial system.

- A wide array of emerging markets appeals to investors—despite their absence on the Index.** China, India, and Mexico are the only emerging markets on the Index, but data from the United Nations Conference on Trade and Development shows that FDI inflows to emerging markets have risen in recent years as those to developed markets have fallen. And 43 percent of investors tell us they are seeking new opportunities in emerging markets—slightly more than the 42 percent seeking new opportunities in frontier markets and the 41 percent doing so in developed markets. More strikingly, while there are increases in the average scores for almost all countries included in our survey, the average score for frontier markets increases the most (+0.15), followed by emerging markets (+0.12) and then developed markets (+0.09). There are far more emerging and frontier markets than there are developed markets, however, so it appears to be harder for emerging or frontier markets to break into the top 25 spots on the Index. And given the smaller size of many of these markets, their absorptive capacity for FDI may limit potential inflows.
- Investor optimism about the global economy remains strong but is waning.** Investors remain largely optimistic about the global economy, with 62 percent saying they are more optimistic than they were last year. However, this is a fall from the 66 percent who were more optimistic in 2018—marking the first such decline in global economic bullishness since 2016. Investors remain the most optimistic about economic prospects in Asia Pacific. Europe and Eurasia is also regarded as a regional bright spot, but investors' level of optimism there has waned significantly since last year.
- The age of multi-localism is driving FDI decisions.** Our survey results suggest that investors have begun to prioritize FDI as a part of business strategies to adapt to the age of multi-localism—a period characterized by the preference for local communities, industries, products, cultures, and customs. More than 75 percent of investors tell us that FDI is more important now than it had been in recent years, and almost four-fifths say their companies will increase their level of FDI in the next three years as a result. More than half of companies are not concentrating on just one mode of investment, however, reflecting the need to tailor FDI strategies to the unique conditions of each local market. Companies therefore seem to be positioning themselves in local markets by adapting to idiosyncratic political risks, distinct policy frameworks, divergent economic conditions, and other unique local characteristics.
- Cities play an increasingly important role in FDI.** Almost two-thirds of companies have more than half of their FDI in cities, with this emphasis particularly high among companies based in Asia Pacific. Large cities and megacities are the most popular investment destinations regardless of business activity or sector, reflecting the increasing concentration of economic power and productivity growth in the world's leading urban areas. Economic performance is the most important factor in city FDI decisions, but labor force considerations also play an important role. And almost two-thirds of companies are engaging more with city-level stakeholders than in the past. Although this increase in the importance of cities seems inconsistent with rising nationalist sentiments, this paradox is in fact to be expected in the age of multi-localism.

The 2019 Foreign Direct Investment Confidence Index

The United States tops the A.T. Kearney Foreign Direct Investment (FDI) Confidence Index for the seventh year in a row (see figure 1).² While seven years is the country's longest run in the top position on the Index, China holds the all-time record, as it maintained the first position from 2002 through 2012. The enduring appeal of the United States to foreign investors is likely a result of its business-friendly regulatory environment, skilled workforce, technological capabilities, and large domestic market. Recent policy volatility and a slowing economy

Figure 1
The 2019 A.T. Kearney FDI Confidence Index®



Note: Values are calculated on a 0 to 3 scale, with 3 being the highest level of confidence in a market as a future destination for FDI.
 Sources: A.T. Kearney Foreign Direct Investment Confidence Index (2017, 2018, 2019)

² The Index is calculated as a weighted average of the number of high, medium, and low responses to questions regarding the likelihood of making a direct investment in a market over the next three years. For information on the methodology and history of the FDI Confidence Index, see "About the Study" in the Appendix.

appear, however, to be diminishing the relative attractiveness of the US market. This decline is apparent in the decrease in the score gap between the United States and the next-highest ranked country on the Index this year as well as the smaller gap between the highest and lowest scores among the top 25 markets.

Germany rises one spot to reclaim the second position, after ceding the spot to Canada in last year's Index. Canada remains in the top five, though, falling just one spot to third. And the United Kingdom holds steady in the fourth position for the third year in a row, despite the uncertainties associated with Brexit. France, another major European market, also rises two spots to enter the top five for the first time since 2002. This year marks the first time in the history of the Index in which all of the top five spots are held by developed markets.

The top 10 countries on the Index remain unchanged from 2018 with one exception: Singapore rises to rank 10th and displace Switzerland, which falls to 13th. Within the top 10, Italy is one of the biggest gainers, rising two spots to 8th this year. The other notable movement among the top 10 is China's drop down two spots to 7th this year. It remains, however, the highest-ranked emerging market on the Index—having firmly held this position since 1999.

More broadly, the Asia Pacific markets do well on the 2019 Index. Their share of spots increases from seven last year to eight this year, with Taiwan (China) rejoining the top 25 after a two-year absence. And half of the Asia Pacific markets on the Index rank in the top 10: Japan, China, Australia, and Singapore.

European markets hold steady with 14 spots in this year's Index—once again claiming the title of the region in which investors are most confident about the likelihood of their investments in the coming years. Furthermore, Europe includes all of the markets that make the largest gains in the rankings this year: Denmark (+6), Spain (+4), Austria (+3), and Belgium (+3). And Finland, which joins Taiwan (China) as a newcomer on the 2019 Index, is also a European market. Continued investor focus on European markets likely reflects ongoing uncertainty surrounding Brexit, as companies invest in other European Union (EU) member economies to maintain their preferential access to the EU market.

In contrast, the countries with the largest drops in the rankings—Mexico (-8), India (-5), and Switzerland (-4)—have few shared characteristics. The extent of their commonalities is that two of these countries are emerging markets, though each represents a different region of the world economy. Similarly, the two countries that appeared on last year's Index but do not rank in the top 25 this year hail from different regions and are at different levels of development: Portugal and Brazil. The lack of a pattern implies that it may be country-specific developments that explain these shifts in investor sentiment rather than a broader global trend.

It is important to note, however, that—despite the changes in rankings—almost all countries enjoy score increases this year. Among the top 25 markets on the 2019 Index, the only two countries to experience score decreases are China and India. And more generally, almost all of the 70-plus countries included in our survey—which together account for more than 95 percent of FDI inflows—experience gains in their scores this year. These increases represent the most dramatic upward trend in scores across the board in the history of the Index, suggesting that companies are more likely to invest broadly around the world in the years to come.

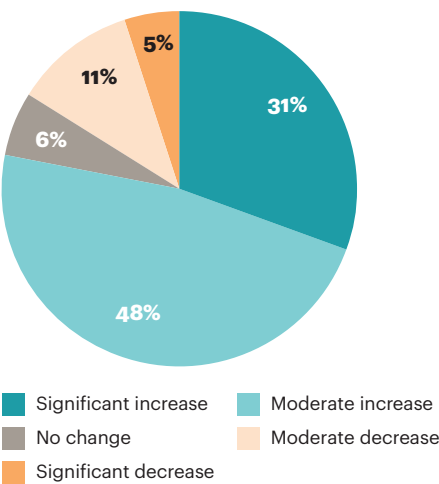
Investors Continue to Prioritize FDI ...

FDI is seen as vitally important for corporate profitability and competitiveness, with 77 percent of investors telling us that FDI will be more important in the coming years. And the share of investors saying that FDI will be *significantly* more important for corporate profitability and competitiveness has grown steadily over the past several years, from just 26 percent in 2016 to 32 percent in 2019.

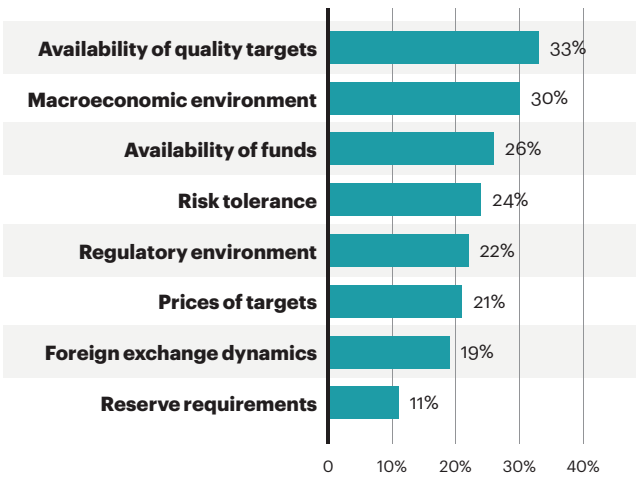
Given these views on the strategic importance of FDI, it is not surprising that 79 percent of investors say their company will increase its level of FDI over the next three years (see figure 2). Investors based in Asia Pacific and those in the industry sector are particularly keen to increase their level of FDI. While there is no change in the overall percentage of investors expressing such bullishness on FDI intentions since last year's survey, the reasons for increasing FDI shift somewhat this year. Topping the list in 2019 are the availability of quality targets and the macroeconomic environment. These two factors may be related, as several years of global economic growth have likely created attractive investment targets in many markets around the world.

Figure 2
Almost four-fifths of investors plan to increase FDI, driven by target availability and the macroeconomic environment

How will your company's level of FDI change over the next three years?



Which factors are most important for increasing FDI?¹



¹Percentages do not add to 100 because respondents could select two choices. Only those respondents who answered "significant increase" or "moderate increase" to the previous question were asked this question.

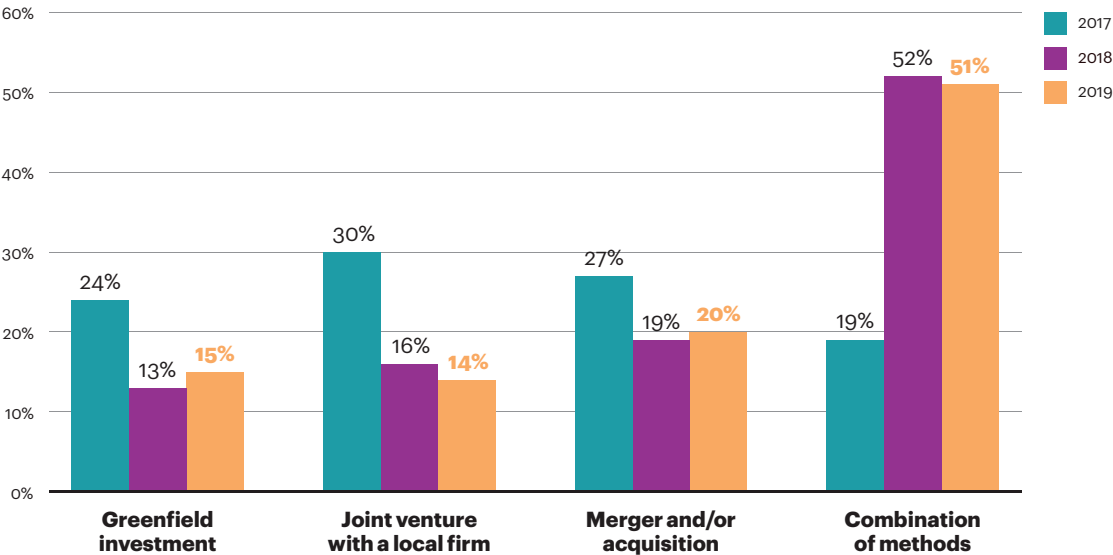
Source: 2019 A.T. Kearney Foreign Direct Investment Confidence Index

This emphasis on FDI seems to be driven increasingly by investors' pursuit of localization—the practice of shifting a company's management, operations, production, or marketing to local markets. In last year's FDI Confidence Index, almost three-quarters of investors said their companies were increasing their reliance on FDI as a result of localizing. FDI enables the company to become more of a local player and buttress its local relationships, mitigating the effects of populism, protectionism, and the "islandization" of the global economy. This year's survey results, in which investors report that they continue to view FDI as an important business strategy and are planning to increase FDI levels accordingly, are consistent with last year's findings.

The mode by which companies engage in FDI is also consistent with last year’s survey results. Investors are continuing to pursue a combination of FDI methods (see figure 3). The continued lack of focus on a particular mode of FDI likely reflects the fact that a one-size-fits-all FDI strategy does not work in an environment in which localization strategies are used to adapt to markets characterized by idiosyncratic political risks, distinct policy frameworks, divergent economic conditions, and other unique local characteristics. Furthermore, as companies pursue FDI across a wider variety of markets—as indicated by the broad-based increase in countries’ scores on this year’s Index—the need to tailor strategies to each market only increases.

Figure 3
Investors prefer a combination of FDI modes again this year

By which mode does your company typically engage in FDI?



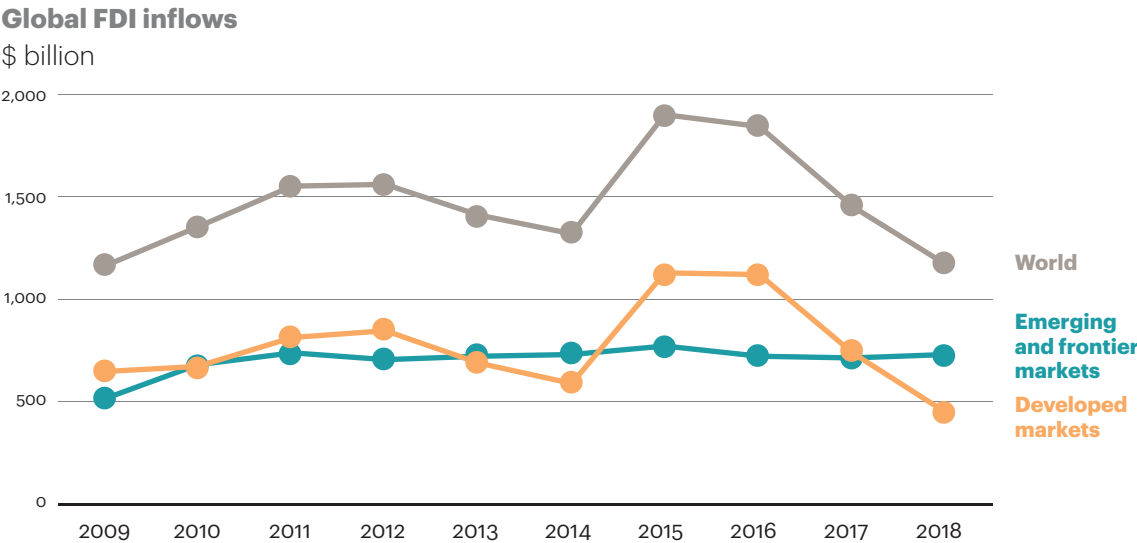
Sources: A.T. Kearney Foreign Direct Investment Confidence Index (2017, 2018, 2019)

... But Recorded FDI Flows Continue to Weaken

Despite investors’ consistent responses in recent years of the Index that their companies are planning to increase their levels of FDI, recorded FDI flows have been falling since 2015. The most recent estimates from the United Nations Conference on Trade and Development (UNCTAD) show a 19 percent fall in global FDI flows in 2018 (see figure 4 on page 7). As in previous years, this drop was driven almost entirely by reduced FDI flows to developed markets.

While this divergence seems paradoxical at first glance, there were anomalies that explained the precipitous declines in FDI in both 2017 and 2018. The decrease in flows to developed markets in 2017 was largely a result of the absence of large megadeals that had resulted in abnormally high FDI inflows in 2016 for the United Kingdom and the United States. The decline in 2018 was driven by a key policy change in the world’s largest economy—namely, the US tax cut passed in late 2017. UNCTAD points out that the drop in FDI to developed markets in 2018 was the result of US-based companies repatriating accumulated foreign earnings (rather than reinvesting them abroad in the form of FDI).

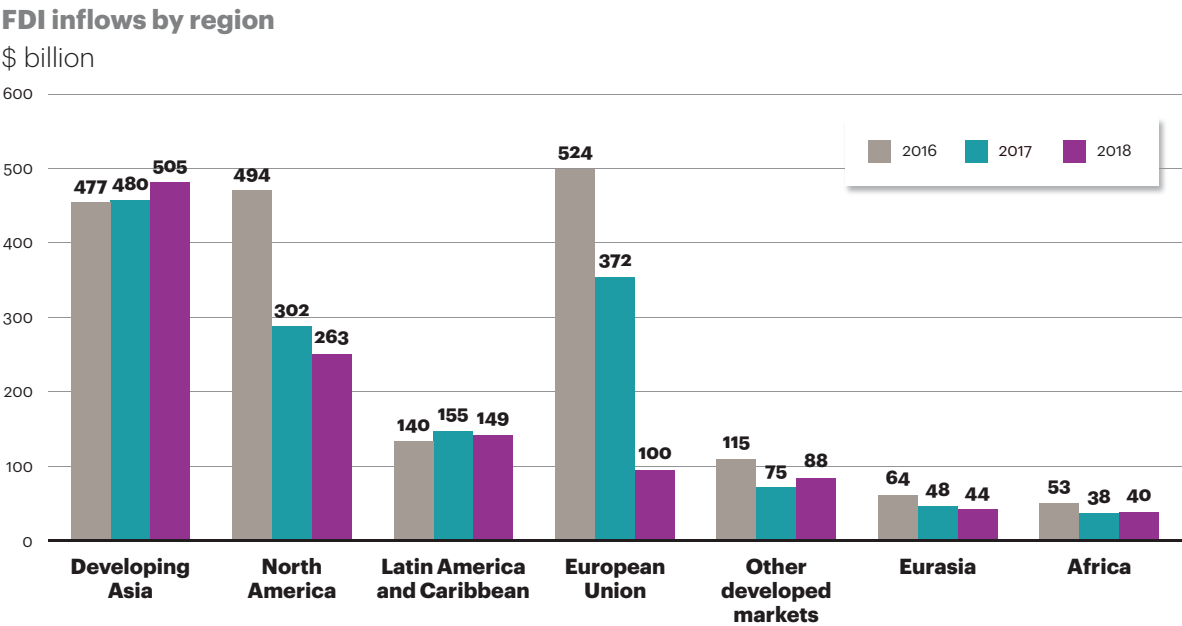
Figure 4
FDI fell again in 2018, driven by a drop in the flow to developed markets



Note: Figures for 2018 are preliminary estimates.
 Sources: United Nations Conference on Trade and Development; A.T. Kearney analysis

Large-scale repatriation driving the global decline in FDI is apparent in the regional breakdown of FDI inflows in 2018 compared with recent years (see figure 5). While FDI inflows to North America dropped somewhat, inflows to the EU—where many US-based companies have a

Figure 5
The regional composition of FDI inflow shifted in 2018



Note: Figures for 2018 are preliminary estimates. These regional groupings are the only ones for which the United Nations Conference on Trade and Development provided data in its 2018 estimates. Developing Asia is defined broadly to include the Middle East and Oceania. Other developed markets includes primarily Asia Pacific markets such as Japan and Australia.
 Sources: UN Conference on Trade and Development; A.T. Kearney analysis

significant presence—fell far more drastically. And other developed markets—including large Asia Pacific markets such as Japan and Australia—actually saw an increase in FDI inflows, consistent with these countries’ strong performance on the FDI Confidence Index in recent years. In line with recent trends in FDI flows, countries in Africa continue to attract less FDI than those in any other region, while developing Asia attracts the most. The latter trend appears to be due in part to China’s dramatic increase in FDI in the rest of developing Asia. The Asian Development Bank reports that 40 percent of [China’s outbound FDI](#) in 2018 went to other emerging and frontier markets in Asia, growing a dramatic 198 percent from the previous year.

Strong FDI Flows to Emerging Markets Contradict Developed Market Dominance on the Index

One of the most distinguishable macro trends in the Index this year is that developed markets once again dominate the top 25 markets for investor intentions. Developed markets account for 22 of the 25 spots on the Index—hitting their highest-ever share of positions for the second year in a row. China, India, and Mexico are the only emerging markets on the Index. This trend of high investor confidence in developed markets has been growing since 2014, with the exception of a slight shift in favor of emerging markets in the 2017 Index. Investor preference for developed markets has corresponded with somewhat stronger economic growth in developed markets, which also began in 2014.

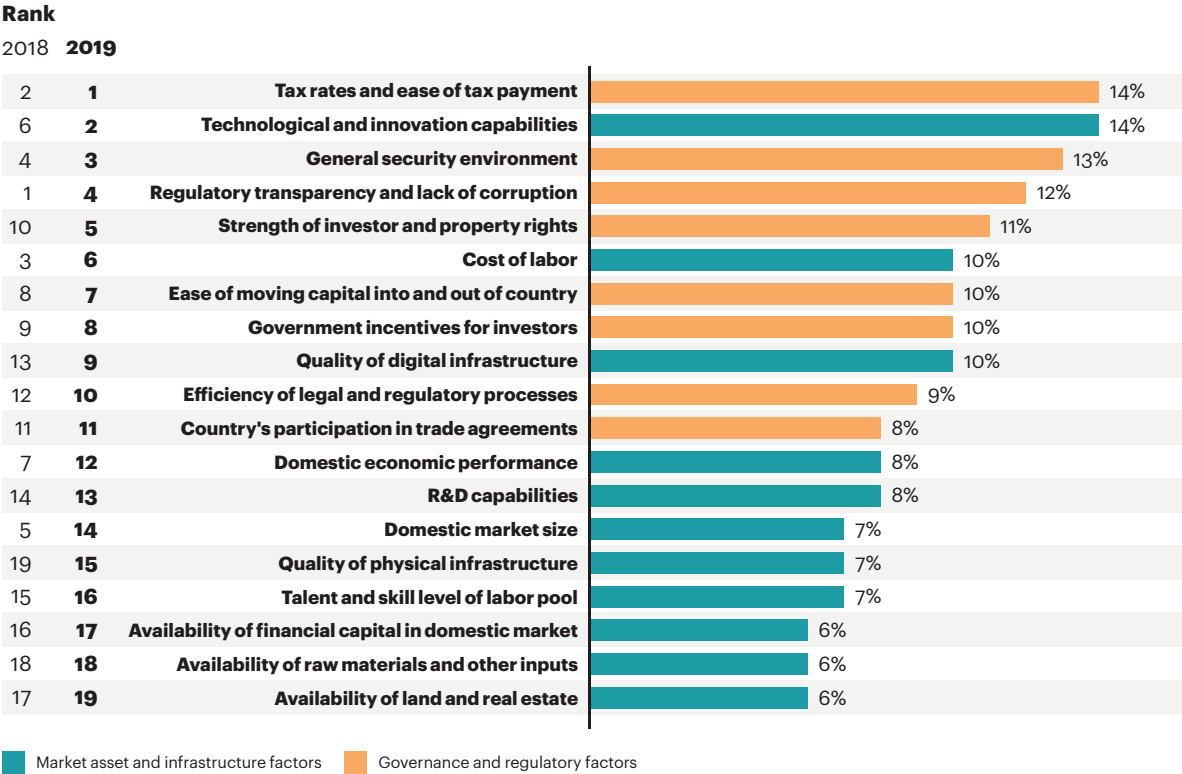
While developed markets are currently favored, investors appear to be examining emerging markets for future investment opportunities.

Investors’ prioritization of governance and regulatory factors when determining where to invest may also be driving the increased focus on investing in developed markets (see figure 6 on page 9). In fact, four of the top five factors that investors consider when choosing where to invest are governance and regulatory factors. And two of these factors—regulatory transparency and lack of corruption and the general security environment—have been consistently among the top five factors for investment decisions since 2015. Investors’ focus on such governance issues helps to explain why developed markets continue to dominate the rankings, as these markets are generally perceived to have more transparent regulatory environments, lower levels of corruption, and higher levels of security.

The only market asset and infrastructure factor that ranks among the top five factors investors consider when determining where to invest is technological and innovation capabilities, which are also assets that many developed markets possess. Perhaps unsurprisingly—given the increasingly digital nature of the global economy and the ongoing [battle for technological supremacy](#)—the technological and innovation capabilities factor makes one of the largest gains in the factor rankings this year. Other factors that investors are prioritizing much more this year include the strength of investor and property rights and the quality of digital

Figure 6
Top factors in investment decisions reinforce the dominance of developed markets

What are the most important overall factors in choosing where to make investments?



Note: Percentages do not add to 100 because respondents could select two choices.
 Sources: A.T. Kearney Foreign Direct Investment Confidence Index (2018 and 2019)

infrastructure—both of which are also related to technological innovation. As may be expected, investors in the IT sector are those most focused on digital infrastructure when determining where to invest.

But these Index results highlight another paradox: the split between developed, emerging, and frontier markets. While developed markets have consistently dominated in the FDI Confidence Index in recent years, UNCTAD data shows that, put together, emerging and frontier markets attracted significantly more FDI inflows than developed markets last year, with the level of FDI flowing to emerging and frontier markets holding relatively steady in recent years and even rising 2 percent in 2018 (see figure 4 on page 7).

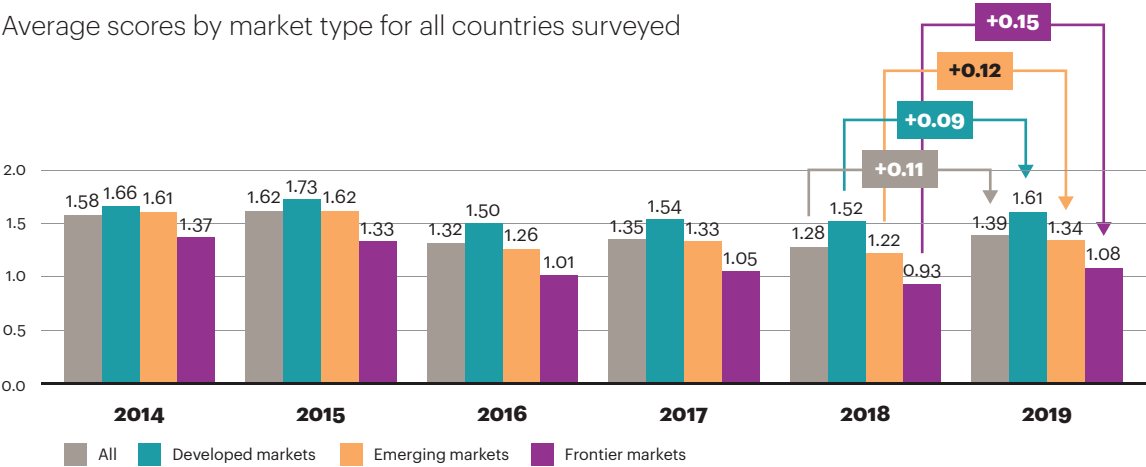
This apparent contradiction may be explained by the fact that there are far more emerging and frontier markets than there are developed markets, and many of them are much smaller in market size and therefore absorptive capacity for FDI. It is, therefore, simply more difficult for emerging or frontier markets to break into the top 25 spots on the Index. Global investors are diverse in terms of sector, regional interests, business models, and risk tolerance. As such, it is more likely that they will coalesce around investment intentions in a set of countries in the smaller universe of developed markets than in the much larger universe of emerging and frontier markets. Or it may be that while developed markets are currently favored, investors have begun the process of examining emerging markets for future investment opportunities.

Indeed, our survey results indicate that investor interest in seeking new investments across all types of markets is essentially the same. While 43 percent of investors say their companies are seeking new investment opportunities in emerging markets, 42 percent say the same for frontier markets, while 41 percent do so for developed markets. And while average scores increase for almost all 70-plus countries in our survey this year, as mentioned above, average scores for developed markets rise the least. The average score for frontier markets increases the most this year (+0.15), followed by emerging markets (+0.12) and then developed markets (+0.09) (see figure 7). While developed markets maintain the highest average score, then, the gap between these countries and emerging and frontier markets decreases significantly this year. If this trend continues, more emerging markets could appear among the top 25 markets for investor intentions in coming years.

Figure 7
Investment intentions for all markets rise this year, with the greatest increases for frontier and emerging markets

FDI Confidence Index

Average scores by market type for all countries surveyed



Sources: A.T. Kearney Foreign Direct Investment Confidence Index (2014, 2015, 2016, 2017, 2018, 2019)

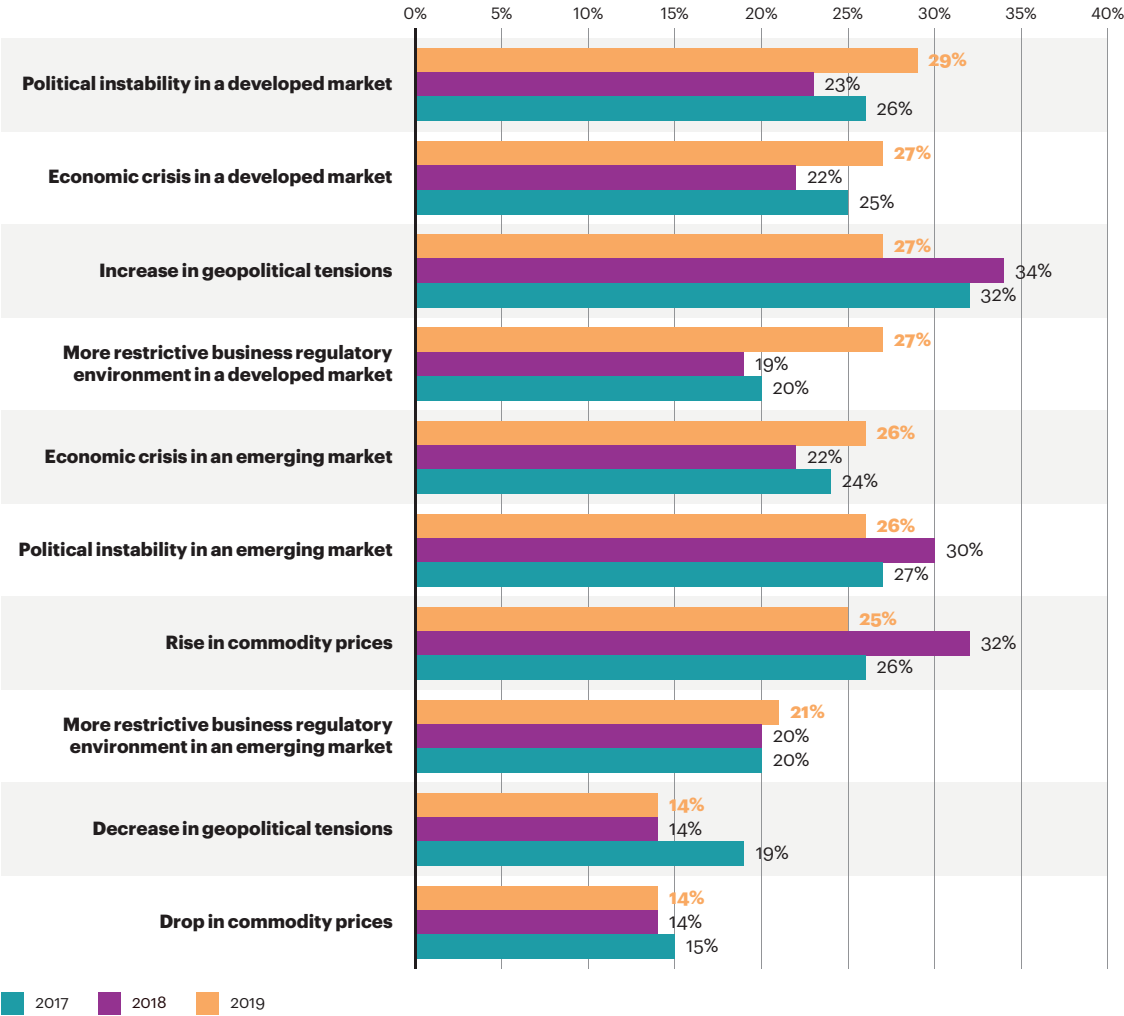
Investors Foresee a Complicated External Environment

The risks that investors believe are most likely this year are substantially different from those they anticipated in previous years. The relatively weak increase in confidence for investing in developed markets (as measured by the average score change for these markets) may be related to the developments that investors perceive as most likely to occur this year. According to investors, risks are much higher in developed markets in 2019 (see figure 8 on page 11). Investors point to political instability in developed markets as the most probable risk this year, followed closely by an economic crisis in a developed market and a more restrictive business environment in a developed market.

Paradoxically, then, investors are focusing their investment intentions in developed markets, but they see the risks in these markets as much more likely to occur than those in emerging markets. This paradox may simply be a result of investors' greater focus on the risks in developed markets

Figure 8
Investors see instability in developed markets as the most likely risks to occur

What developments from among the following do you think are more likely to occur in the next year?



Sources: A.T. Kearney Foreign Direct Investment Confidence Index (2017, 2018, 2019)

because of their strong investment intentions for those markets. Or the political risks in developed markets—particularly populism, protectionism, and [modern industrial policies](#)—may in fact be driving investment intentions as companies seek to establish or expand their local presence to maintain access to these key markets.

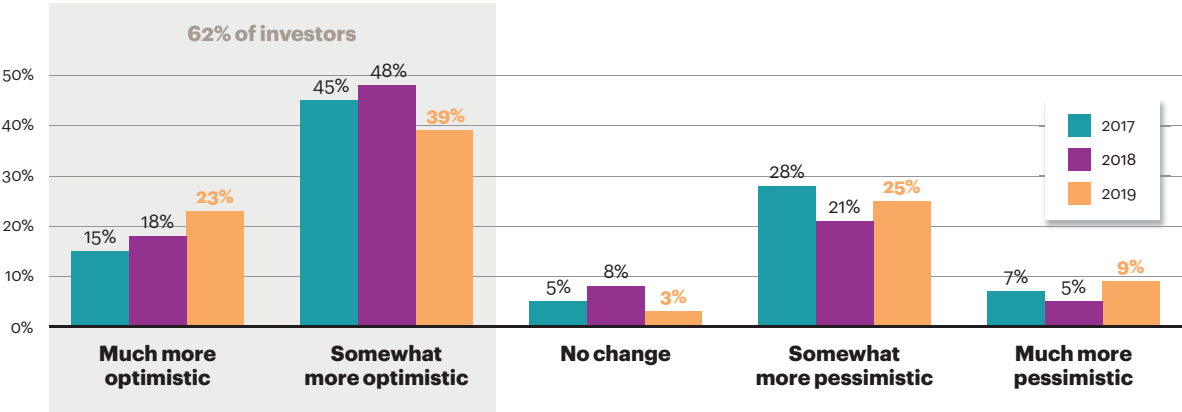
The developed market risks that spark the most concern among investors vary by region. Investors based in the Americas see political instability as most likely, Europeans point to an economic crisis, and those based in Asia Pacific are most focused on a more restrictive business regulatory environment. These assessments make sense in light of ongoing developments within each region. The US political environment continues to be volatile—our survey was in the field during the longest-ever federal government shutdown, for instance—while European economic growth is slowing and could be severely affected by a “no deal” or “hard” Brexit, and Chinese companies are facing growing regulatory resistance to their investments in key developed markets.

Despite investors’ concerns about the probable manifestation of political risks, they continue to be bullish on the global economic outlook—another paradox that has persisted in Index results for several years. This year marks an inflection point, however. Since 2016, investors had become more optimistic about the global economy each year, hitting a high of 66 percent optimism last year. This year that optimism fades somewhat, with only 62 percent of investors saying they are more optimistic about the global economy than they were last year (see figure 9). This reduced optimism is in line with most economic forecasts and dovetails with our own projection that the [global economy will continue to decelerate](#) in 2019 and beyond.

At a regional level, investors remain most optimistic about Asia Pacific (see figure 10). This optimism is unsurprising, given that many of the world’s most dynamic economies are in that

Figure 9
Global economic optimism is starting to wane

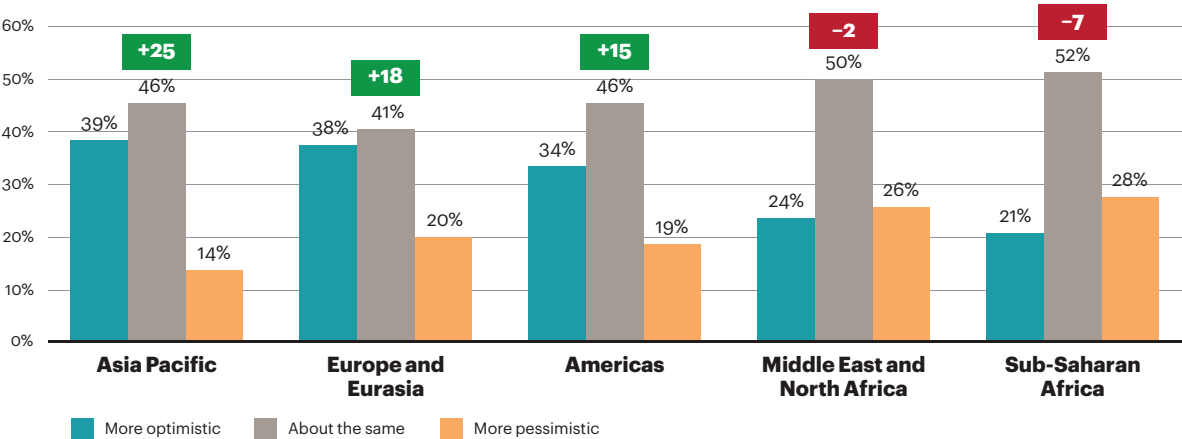
Compared with a year ago, how has your view on the global economy changed?



Sources: A.T. Kearney Foreign Direct Investment Confidence Index (2017, 2018, 2019)

Figure 10
Investors are most optimistic about Asia Pacific as well as Europe and Eurasia

How has your view on regional economies changed compared with a year ago?



Note: Regions are in descending order of the net score (differential between more optimistic and more pessimistic), which is presented in the numbers above each regional dataset.

Source: 2019 A.T. Kearney Foreign Direct Investment Confidence Index

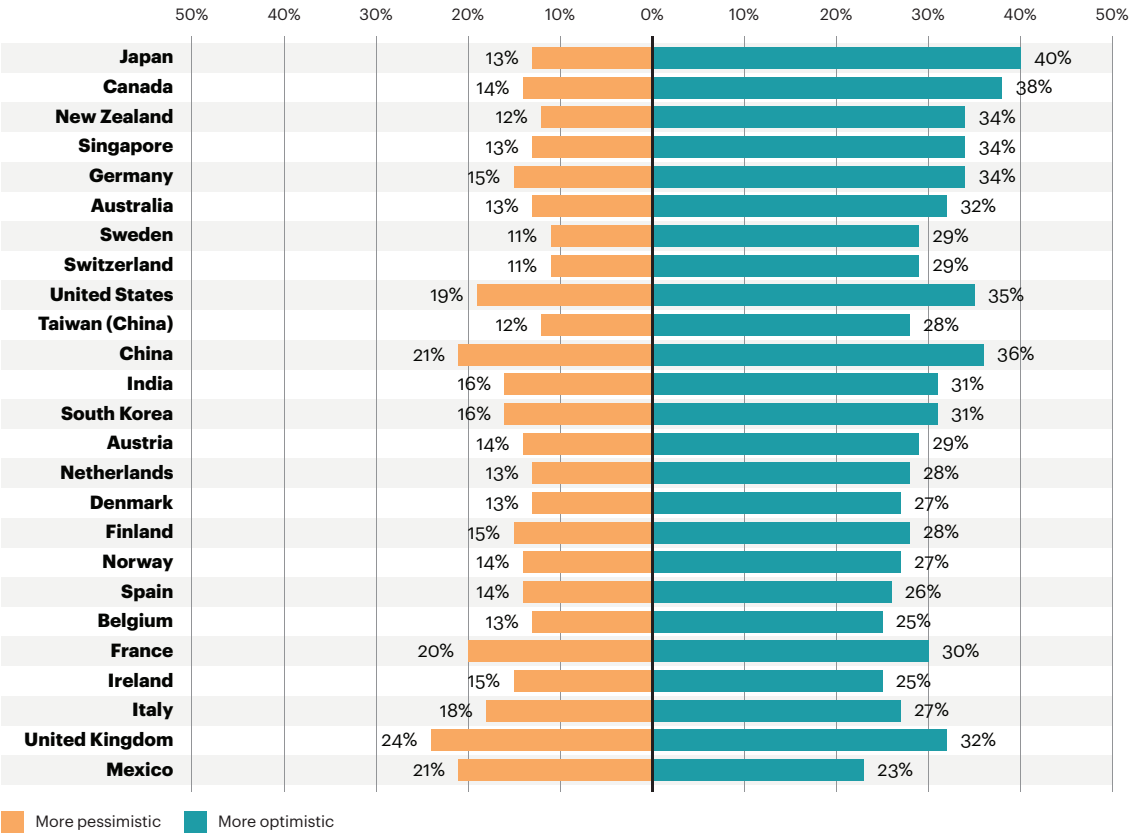
region, including India, China, and the emerging markets of Southeast Asia. In addition, Australia and New Zealand have been growing relatively robustly in recent years—a trend that is expected to continue in the near to medium term. Investors are also optimistic about the Europe and Eurasia economic outlook, although their optimism has waned since last year’s survey when there was a 27 percentage point differential in investors who were more optimistic than pessimistic about the region’s economic prospects. Economic optimism about the Americas has also faded since last year, although not by as wide a margin as for Europe and Eurasia.

Investors, though, are more pessimistic this year about the economic outlooks both in the Middle East and Africa and in sub-Saharan Africa (see figure 10 on page 12). This outlook may help to explain why neither region is represented among the top 25 markets for FDI on this year’s Index. In the case of sub-Saharan Africa, however, this year’s survey results represent an improvement in investor sentiment from last year, when there was a 12 percentage point differential in investors who were more pessimistic than optimistic about the region’s economic outlook.

Some of these same patterns hold for investors’ country-level economic outlooks as well (see figure 11). Notably, investors are quite bullish on the economic outlook for the developed markets that are signatories to the Comprehensive and Progressive Agreement for Trans-Pacific

Figure 11
Optimism is high for developed markets in the Pacific but low for most large European markets

Compared with one year ago, how has the country’s three-year economic outlook changed?



Note: Countries are listed in descending order of the net score. Numbers do not add up to 100 because remaining respondents selected “about the same.”
Source: 2019 A.T. Kearney Foreign Direct Investment Confidence Index

Partnership (CPTPP)—Japan, Canada, New Zealand, Singapore, and Australia—account for five of the top six markets in which investors’ optimism outweighs pessimism by the largest margin. This result points to Asia Pacific as the primary driver of global economic activity in the coming years. And it suggests that investors believe that countries that are actively engaging in more global—or regional—economic integration could grow more robustly than those that do not.

In contrast, investors are less optimistic about the economic prospects in several major European markets. It should come as no surprise that the United Kingdom ranks second to last in terms of net investor optimism about its economic outlook, given the ongoing high level of uncertainty surrounding Brexit. Ten other European markets also rank in the bottom half of net economic optimism, including most notably Italy, France, and Spain. In fact, the only major EU market to rank near the top of the economic optimism list is Germany, which may be part of the reason that it is also the highest-ranked European market on this year’s Index.

The Age of Multi-Localism Shifts Attention to Cities

While the FDI Confidence Index—and indeed most economic analysis—has always focused on countries as the unit of analysis, there is reason to question whether this exclusive emphasis is still prudent in today’s global environment. More than two decades of expanding globalization, with globally integrated value chains and mass market products sold in countries around the world, are being challenged. It is not necessarily the cross-border economic connections that are ending, but rather the mentality that fostered their rise. The world is instead entering what we call an [age of multi-localism](#), characterized by the preference for local communities, industries, products, cultures, and customs. This new era stands in stark contrast with the “flat” world mentality of recent decades.



The multi-local world is affecting FDI decision-making in three important ways.

At the same time, global governance of the economy is fragmenting as multilateral institutions become less representative of current realities and as economic integration becomes more regionalized. In terms of international governance, then, multi-localism is manifesting itself as national governments going it alone to implement policies outside the structures of the traditional multilateral institutions and pursuing regional economic integration as global agreements seem out of reach. As we explored in our [Global Economic Outlook 2019–2023](#), continued fragmentation and regionalization of the international economic order would weaken long-term prospects for global economic growth and prosperity, in addition to creating a more complicated international regulatory environment for companies.

How does this multi-local world affect FDI decision-making? First, there appears to be a greater emphasis by investors on retaining access to key markets. For instance, the United States and the United Kingdom have been turning away from global or regional economic integration in recent

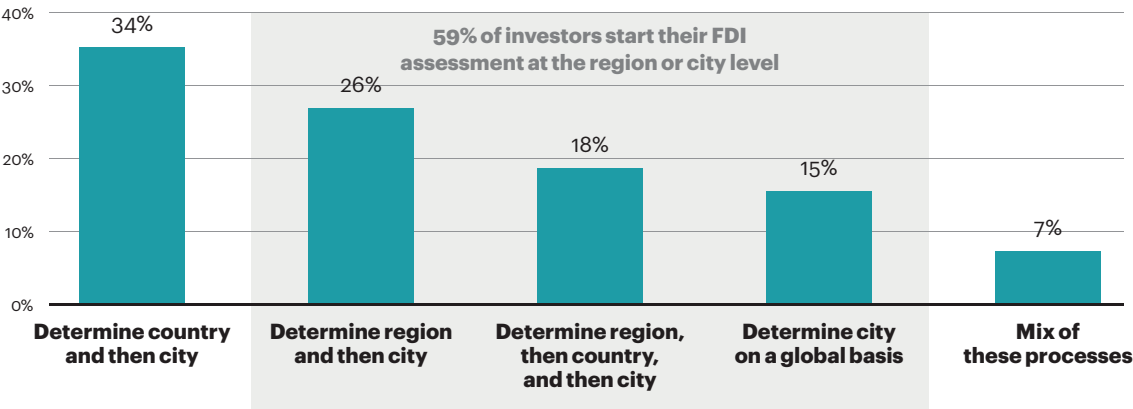
years. Yet they remain large, open economies with relatively low tax rates, strong technological capabilities, and safe operating environments—all factors that investors rank highly (see figure 6 on page 9). Furthermore, they both have large domestic markets that are crucial to companies’ success. It is therefore unsurprising that they continue to rank among the top five markets for investment intentions.

Second, multi-localism’s effect on FDI decision-making is visible in how investors based in different regions and sectors prioritize markets. Beyond the shared confidence in investing in the largest, most obvious developed markets that rank in the top 25 of this year’s Index, there is significant divergence in investor preferences across regions and industries. For instance, 10 additional emerging markets rise to the top 25 when ranking FDI Confidence Index results solely by investor region or sector. The emerging markets that investors from each region and sector prioritize also vary widely, which helps to explain why these markets do not rise to the top 25 in the overall Index. This divergence in FDI intentions makes sense in a multi-local world as each company seeks to [recalibrate its global footprint](#) based on a reassessment of core markets and a realignment of their value chain to adapt to localizing pressures. So while developed markets continue to dominate the FDI Confidence Index, there are in fact significant regional- and sectoral-level investment intentions in a wider array of emerging markets below the top 25 spots.

And third, the age of multi-localism also appears to be [increasing the importance of cities](#) in driving investment decisions. Almost two-thirds of investors say that more than half of their companies’ FDI is located in cities—with companies based in Asia Pacific even more likely to have the majority of their FDI in cities. Strikingly, almost 60 percent of investors do not start their investment decision-making process at the country level (see figure 12). Instead, many begin by selecting a region in which to invest—and some companies even determine the city in which they want to invest by analyzing cities at a global level. Investors based in the Americas and those in the IT sector are most likely to start their FDI decisions at the regional or city level. This emphasis on cities as drivers of investment decisions has grown as the age of multi-localism has taken hold, with 58 percent of investors saying they place more emphasis on the city as the basis of selecting FDI destinations now than they did just two years ago.

Figure 12
For most investors, countries are not the starting point for investment decisions

What process does your company typically follow to determine in which city to invest?



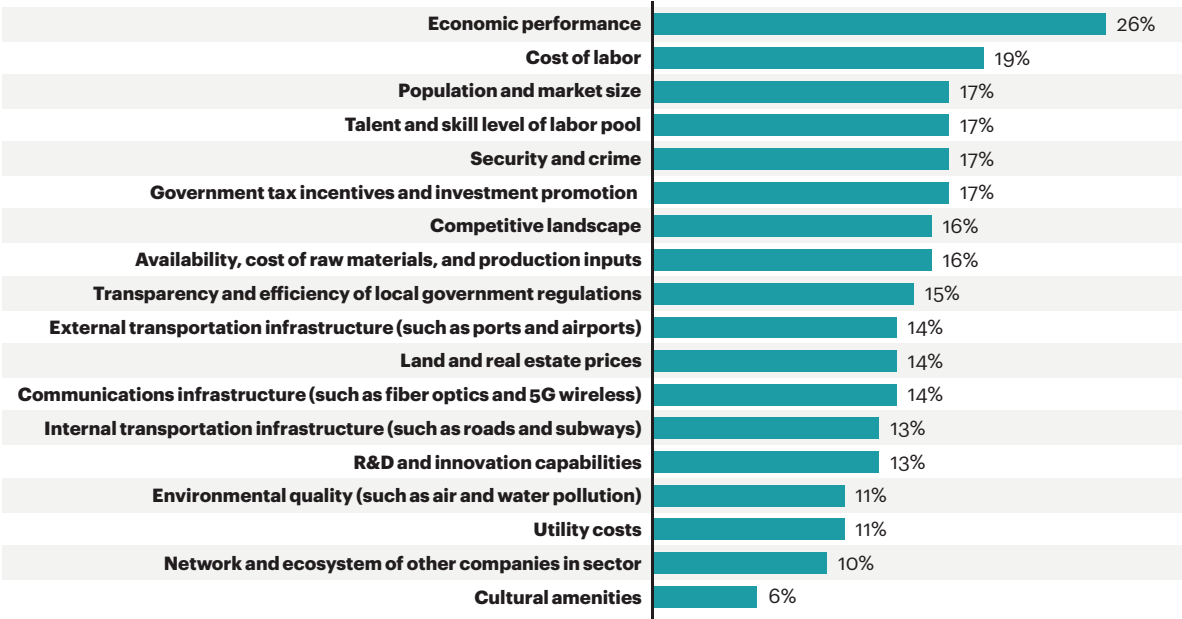
Source: 2019 A.T. Kearney Foreign Direct Investment Confidence Index

Large, high-performing, and well-connected cities help countries attract FDI. Of the top 25 cities on A.T. Kearney’s 2018 Global Cities Index, 23 are in countries that appear on this year’s FDI Confidence Index.

The factors that investors prioritize in their city-level investment decisions vary somewhat from the factors on which they focus at the country level. For instance, economic performance is by far the top-ranked factor driving investment decisions in cities (see figure 13), but domestic economic performance ranks relatively low in terms of factors driving country-level FDI decisions (see figure 6 on page 9). Other factors that rank highly at the city level include labor costs, labor force skills, market size, security, and government tax incentives and other investment promotion efforts. Of course, some of the other factors included in our survey—such as internal transportation infrastructure, environmental quality, and cultural amenities—matter secondarily to companies, as such characteristics play a role in attracting top talent to a city. And while some governance and regulatory factors matter at the city level, there is clearly more investor emphasis on market asset and growth potential considerations. This tendency

Figure 13
Economic performance and labor force considerations are top factors in city-level investment decisions

Which of the following factors are the most important in choosing in which cities to invest?



Note: Percentages do not add up to 100 because respondents could select up to three choices.

Source: 2019 A.T. Kearney Foreign Direct Investment Confidence Index

makes sense, as the regulatory environment is set primarily at the national level, but these other factors largely determine investment returns at the city level.

Given investors’ emphasis on labor force considerations, market size, and economic performance, it is no surprise that megacities and large cities attract the lion’s share of FDI inflows (see figure 14). In fact, according to the United Nations’ most recent [World Urbanization Prospects](#), although the smallest cities (with populations of fewer than 300,000) continue to account for the largest share of the total global urban population, their share has been declining for decades—a trend that has accelerated since 2000. In their place, megacities (with populations of 10 million or more) and large cities (with populations of 1 to 10 million) are capturing a rising share of the global urban population. These largest cities have risen from 38 percent of the global urban population in 2000 to more than 41 percent in 2015, and they are forecast to capture more than 47 percent by 2035.

This rising concentration of urban populations in large cities and megacities reflects the tendency of talent to attract more talent. Companies and sectors, in turn, concentrate in cities with the largest talent pools for their needs. Our survey results reflect this trend: investors say they concentrate their investments in megacities or large cities for all types of business activities—a result that holds true across all geographies and sectors. And in an increasingly digital-enabled world, this continuing concentration of talent, innovation, and economic activity is likely to further favor megacities and large cities over their smaller counterparts. Indeed, the [productivity gap](#) within a given county has widened in recent years as top-performing cities become more digitalized and have better transportation connections than others.

Figure 14
Investments are drawn to centralized locales in larger cities

Where is your company likely to make FDI for each business activity?

	Type of city					Area of city			
	Megacity	Large city	Small or medium-size city	Non-urban area (rural)	None of these	Urban core or city center	Metro area outside primary city limits	Non-urban area (rural)	None of these
Headquarters and management	46%	36%	27%	10%	5%	55%	44%	16%	5%
Production and manufacturing	33%	42%	31%	20%	5%	38%	51%	30%	6%
Distribution and logistics	38%	47%	32%	14%	5%	45%	54%	25%	5%
Sales	45%	45%	33%	14%	4%	52%	53%	22%	4%
R&D	42%	40%	29%	13%	6%	49%	46%	19%	6%
Marketing and communications	42%	43%	29%	12%	6%	52%	51%	19%	3%
Procurement and purchasing	38%	41%	34%	13%	4%	45%	49%	24%	4%
Business support services	41%	44%	29%	13%	4%	49%	48%	20%	4%

Notes: Percentages do not add up 100 because respondents could select all that apply. Highlighted cells indicate highest share of respondents per business activity.

Source: 2019 A.T. Kearney Foreign Direct Investment Confidence Index

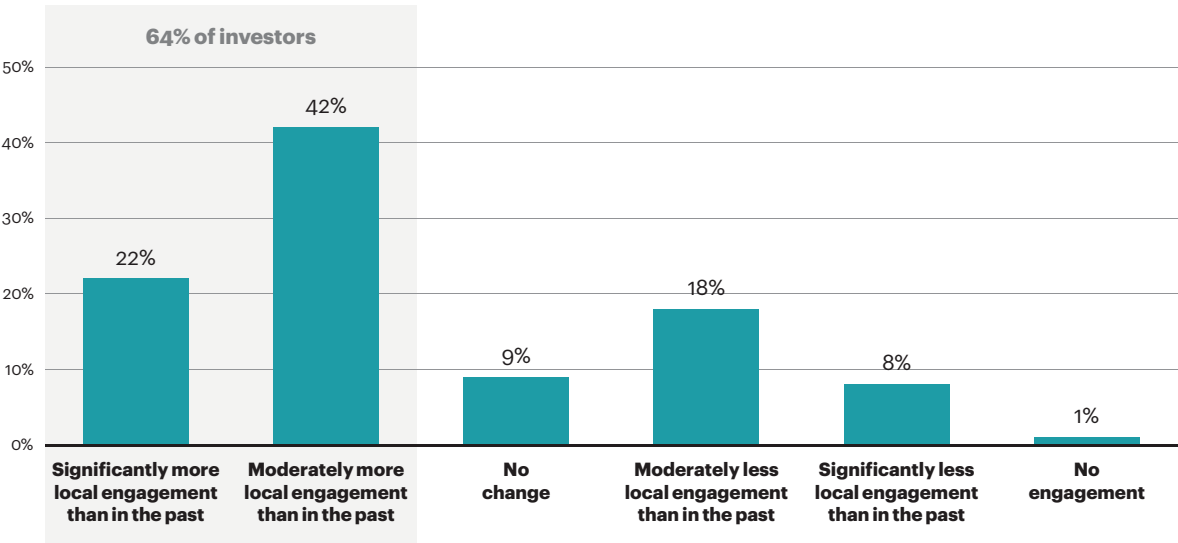
Large, high-performing, and well-connected cities are therefore a benefit to countries in terms of their attractiveness to foreign investors. In fact, there is a strong correlation between the top-ranked countries on the FDI Confidence Index and the top-ranked cities on A.T. Kearney’s most recent [Global Cities Index](#). Of the top 25 cities on the 2018 Global Cities Index, 23 are in countries that appear on this year’s FDI Confidence Index. And the top-ranked market for FDI intentions, the United States, accounts for six of the top 25 cities in the Global Cities Index—far more than any other country.

Cities, then, are an important part of foreign investors’ choices, and they become even more important as companies confront the need to establish local identities and engage at the local level in this multi-local world. Companies achieve this identity through some combination of their value proposition, workforce demographics, suppliers, production processes, product mix, and marketing. To earn a positive return on their foreign investments, companies need to become what we call [locally integrated enterprises](#). This entails being continuously aware of local conditions and how they are shifting, recognizing their role in shaping and reacting to those conditions, and using that knowledge to develop tailored business insights and strategies. In other words, companies must become citizens of each city in which they operate, engaging with employees, customers, suppliers, investors, governments, and others to promote long-term value creation.

The results of our survey indicate that investors understand this imperative. In last year’s Index, 89 percent of investors said they were pursuing or considering localization practices to shift, devolve, or decentralize companies’ management, operations, supply chain, production, products, or marketing to diverse local markets. And in this year’s survey, most investors tell us they are engaging with local stakeholders—including government officials, business leaders, employees, and the broader community—more than they had in the past (see figure 15).

Figure 15
Almost two-thirds of companies are engaging more with city-level stakeholders

To what degree does your company engage with local stakeholders in the cities in which it operates?



Note: Local stakeholders includes government officials, business leaders, employees, and the broader community.
Source: 2019 A.T. Kearney Foreign Direct Investment Confidence Index

Furthermore, 97 percent of investors say that their companies are giving back to the communities in which they operate in a variety of ways, including implementing worker training programs, supporting local initiatives or charities, hiring from economically disadvantaged groups, and other such actions. According to our survey, the most popular methods of giving back are investing in local infrastructure, engaging in environmentally sustainable practices, and sourcing from local businesses. These findings align with the conversations at our [2018 CEO Retreat](#), where executives agreed that the business of business is *not* just business. To succeed in today's world, companies need to improve their social license to operate and help shape the policy environment in the cities in which they work. FDI presents companies with a means by which to achieve these objectives and is therefore likely to remain an important component of business strategy in the years ahead.

Regional Findings and Context

Americas

The Americas attracted more than one third of global FDI in 2018—nearly 4 percentage points more than the year prior. And while FDI inflows into both North America and Latin America declined in 2018, the percentage declines for these regions were smaller than that for the global total. These findings correspond with continued strong investor interest in developed markets in the Americas, with both the United States and Canada ranked among the top five markets on the Index for the seventh consecutive year. Looking ahead, North America is likely to benefit from increased trade stability granted by the completion of negotiations on the United States–Mexico–Canada Agreement (USMCA), which is still pending domestic ratification. The absence of any South American countries in the top 25 is notable, however, given that Brazil has been included on all prior editions of the Index. Investors may be concerned about ongoing economic and political uncertainty in the region, although relatively robust FDI inflows in 2018 indicate that many investment opportunities still exist there.

United States

The United States maintains its top ranking in the Index for the seventh consecutive year, although by not as wide a margin as last year. The country's continued attractiveness is likely in large part due to its sustained and robust economic expansion in recent years. The economy grew by 2.9 percent in 2018, compared with an average of 2.2 percent across developed markets. That said, the International Monetary Fund (IMF) forecasts slowing US economic growth in the medium term, which is consistent with declining investor optimism about the near-term US economic outlook.

Several US policies in recent years, including the Tax Cuts and Jobs Act and a sustained effort to weaken the regulatory requirements on companies, are aimed at improving the investment environment, likely contributing to the country's sustained appeal to foreign investors. Other policy measures, however, have injected considerable uncertainty and disruption in the economy over the past year. Trade policy is the most notable example, including the still-unfinalized USMCA to replace the North American Free Trade Agreement (NAFTA) and the imposition of tariffs across a broad set of Chinese exports. Similarly, 2018 reforms in the operation of the [Committee on Foreign Investment in the United States](#) (CFIUS)—which greenlights or rejects foreign investments into the United States on national security grounds—will pose additional complications for FDI moving forward, particularly from China.

FDI inflows to the United States fell 18 percent in 2018 from the year prior, according to UNCTAD—part of a broad-based decline in inflows to developed markets. Part of the fall was due to fewer megadeals involving US-based companies in 2018 than in 2016 and 2017. That said, the United States remains a key market for cross-border M&A, with some of the largest deals focused on natural resources, such as upstream oil and gas development, midstream infrastructure such as pipelines, and metals and mining. The pharmaceutical and biotechnology sector was also involved in some of the largest M&A deals in 2018, including the French pharmaceutical firm Sanofi's acquisition of Bioverativ, which specializes in treatments for hemophilia and other rare blood disorders, for \$11.6 billion.

Canada

Canada ranks third, down one spot from its highest-ever ranking of second place in last year's Index. Although Canada's score improves this year from 2018, Germany's score rises even further to capture the number two spot—suggesting an increasingly competitive FDI environment among the world's largest developed markets. Total FDI inflows to Canada rose nearly 60 percent from the year prior according to the [Canadian Trade Commissioner Service](#), reversing a years-long downward trend in inbound investment. And the signing of the USMCA at the end of 2018 has reduced the pressure on the North American trade environment, although, as mentioned above, the deal's ratification in each country in 2019 will be necessary for long-term stability.



Canada is attractive for technology investments as businesses look outside of Silicon Valley.

Investors are also particularly bullish on the Canadian economy. Overall optimism regarding Canada ranks second, behind only Japan (see figure 11 on page 13). One of the reasons could be the expected boost from its inclusion in the CPTPP. Indeed, Canadian beef producers are already seeing the benefits, with Japan (another CPTPP member) importing three times as much beef from Canada in January 2019 than in the same month last year. The economy is slowing down, however, with late 2018 economic data and comments from the Bank of Canada suggesting that the risk of a recession is rising. Furthermore, the energy sector remains under pressure from weak energy prices and political and regulatory challenges facing energy export projects. That said, the 2018 decision by Royal Dutch Shell to move forward with the LNG Canada project in British Columbia is an important vote of confidence for the sector—and investment announcements may be forthcoming for additional LNG projects as well.

Perhaps unsurprisingly, nine of the 25 largest cross-border M&A deals into Canada by deal value in 2018 were focused on natural resources, and in mining and upstream oil and gas production in particular. But the second and third largest deals that were announced during the year were focused on cannabis, which is indicative of the fast-growing nature of this new industry. Canada is also becoming a more attractive area for technology investments, particularly as businesses look for locations outside of high-priced Silicon Valley in the United States and areas with looser visa restrictions to hire high-skilled foreign workers.

Mexico

Mexico falls from 17th to 25th place, although the country's score actually rises slightly this year. The decline, therefore, is more reflective of an increasingly competitive FDI environment rather than a souring of investment intentions for Mexico. Indeed, according to the Mexican Ministry of Economy, FDI in 2018 grew by more than 6 percent over the previous year, and manufacturing accounted for approximately 49 percent of the total inward FDI. Perhaps unsurprisingly, the United States and Spain are the two largest investors into Mexico, followed by Canada, Germany, and Japan.

The Mexican economy is at an inflection point, with the IMF downgrading Mexico's economic growth forecast to 1.6 percent for 2019, but projecting an acceleration to 1.9 percent growth in 2020 that will rise to 2.7 percent in the medium term. Last month, the Mexican Ministry of Finance similarly downgraded its growth forecasts for 2019 and 2020. These growth concerns dovetail with the rhetoric of President Andrés Manuel López Obrador, who has challenged the privatization of key sectors of the Mexican economy, including the crucial energy sector. Furthermore, in early 2019, the Mexican central bank warned that slowing investment and labor strikes, among other challenges, were weighing on its growth forecast. This dynamic can be seen in the downward change in investor sentiment from last year. In 2019, economic optimism is the weakest for Mexico among the top 25 countries on the Index. And credit rating agencies are [downgrading the country's credit rating outlook](#), particularly as the state is poised to retake a greater role in the financially troubled state-owned oil company Pemex.

Contrary to these headwinds, however, the signing of the USMCA free trade agreement has given investors a sense of greater policy stability in the North America economy. Along the same lines, Mexico has made a concerted effort to expand its trading relationships, including through its participation in the CPTPP and the signing of a free trade agreement with the EU, both of which were completed in 2018. Such efforts indicate to investors that Mexico will remain open to the global economy and is actively seeking to diversify its trade and investment relationships.

Europe

With 14 markets appearing on the FDI Confidence Index this year, Europe is yet again the region with the highest number of countries in the top 25. Each of these European countries receives higher scores from investors this year compared with last year and most either maintain or improve their ranking. In fact, Denmark and Spain improve the most in the rankings this year, jumping by six and four spots, respectively. These results point to sustained investor preference for European developed markets. Recent FDI flow data, however, reveals a different story. Investment flows to Europe plummeted by more than 73 percent in 2018 to an estimated \$100 billion. As a result, Europe is the region with the sharpest decline in investment flows for that period. As the most important factor driving this decline was the US corporate tax reform of 2017, though, such low levels of FDI flowing to Europe are unlikely to be sustained. Brexit remains the big question mark hanging over the region and is likely to affect future FDI flows both for the United Kingdom and a variety of EU markets.

Germany

With a higher score this year—1.90 compared with 1.81 last year—Germany edges up by one spot to rank second in this year's Index, reclaiming its 2017 position. The country remains Europe's largest and most industrialized economy, although German economic growth of 1.5 percent

underperformed the eurozone's 1.8 percent in 2018. This trend is expected to continue amid rising expectations of tepid global growth and high exposure to Brexit, including in the [automotive sector](#). FDI flows to Germany in 2018 decreased by approximately 60 percent, falling to \$12 billion according to UNCTAD, likely in large part due to US-based companies repatriating foreign profits following the US corporate tax reform in late 2017.

Key competitiveness indicators and recent innovation initiatives also suggest that the US tax reform may explain the seeming paradox of Germany's rise in score and rank in this year's Index while experiencing a decrease in FDI flows. For example, Germany has the highest score in the world for innovation capability, according to the World Economic Forum's [Global Competitiveness Report](#). And investors are likely optimistic about the recent government measures to spur R&D, encourage infrastructure development, and boost consumer spending. The government created a [\\$3 billion digital infrastructure fund](#) to strengthen the country's connectivity and digital capacity, which [lags European peers](#). Berlin has also embarked on a plan to boost its technological capabilities, announcing in November 2018 a \$3.4 billion national strategy to strengthen domestic AI capabilities over the medium term. Furthermore, Berlin announced it will abolish the "Soli"—a solidarity tax aimed at boosting resources for the economic advancement of states in eastern Germany—for the bottom 90 percent of taxpayers in 2021. More tax reforms may be forthcoming if the government prioritizes matching the [strengthening tax competitiveness](#) of other European markets.

Like some other European countries, a headwind for inward FDI is the rising [scrutiny of foreign investments](#), particularly from China. Berlin passed a law in December 2018 that increased government oversight of deals involving acquisitions of companies in strategic sectors. But this was not before Chinese-based Contemporary Amperex Technology Ltd. (CATL) announced a \$272 billion investment to [build a lithium-ion cell factory](#) in the Erfurter Kreuz industrial area, the largest Chinese greenfield investment in German history. Another large deal last year, also in the energy sector, was US-based Praxair merging with Germany-based Linde, creating the world's largest industrial gas supplier, in a transaction estimated at \$90 billion.

United Kingdom

The United Kingdom ranks fourth on the Index, holding steady in this position for the third year in a row. And the country's overall score improves this year, suggesting that Brexit uncertainty has not significantly dampened investment intentions despite the disinvestment and relocation decisions that companies continue to announce. Britain's economic fortunes, however, appear to be weakening. The IMF's forecast of 1.2 percent economic growth this year is predicated on the United Kingdom leaving the EU with a withdrawal deal this year—but such an event remains far from certain. Although the EU agreed to extend London's withdrawal timeline after Prime Minister Theresa May's deal was rejected by parliament to bolster the prospects that a deal is reached, a "hard" Brexit is still a possible outcome.

Brexit-driven business uncertainty therefore continues. Importantly, this uncertainty has already wreaked significant damage. [Investment and employment levels](#) have tumbled by 6 and 1.5 percent respectively since the Brexit referendum in 2016. Companies will be more likely to delay investment decisions and seek alternative markets as Brexit uncertainty persists. The high level of uncertainty has also resulted in an overall [low level of employee relocations](#) (subscription required) to other countries as companies wait for a definitive Brexit outcome. Nevertheless, the United Kingdom remains a highly competitive, industrialized, globally connected market and is the fifth-largest economy in the world (at market exchange rates). In addition, the [Global Innovation Index](#) ranks the UK's innovation capabilities fourth globally, and the country has flexible employment laws and a highly educated labor force. Furthermore,

given the increasing importance of cities in driving FDI decisions, London is a key asset for the UK investment environment. The city remains a global epicenter of finance and attracts top talent from all over the world.

The enduring attractiveness of the UK market is reflected in the rise of FDI inflows in 2018 to \$122 billion, making the United Kingdom the third-largest FDI recipient in the world. This FDI increase also may reflect foreign investor positioning to secure access to the UK market before Brexit. Interestingly, the United Kingdom scores particularly highly this year among investors based in the Americas and Asia Pacific, and this preference was reflected in the megadeals of 2018. In the largest transaction of the year, Japanese pharmaceutical giant Takeda acquired UK pharmaceutical company Shire for more than \$81 billion. In another megadeal, US communications company Comcast purchased UK broadcaster Sky for more than \$53 billion.

Brexit-driven uncertainty continues. Although the EU agreed to extend London's withdrawal timeline, a "hard" Brexit is still possible.

France

France makes a two-spot jump this year to fifth place, claiming its highest-ever ranking in the history of the Index. Investor confidence has risen mildly since President Emmanuel Macron took office in May 2017, and sentiment appears largely unaffected by the recent anti-government "yellow vest" protests across the country, which forced the government to postpone some planned reforms and adopt expansionary fiscal measures. Economic growth in 2019 is forecast to be 1.3 percent, which is on par with the eurozone's forecast and stronger than Germany's expected 0.8 percent growth rate.

Despite recent volatility in the political environment, the government appears determined to follow through on its stated goals to restructure the country's expensive pension and unemployment benefit systems. Improving the business environment has also been a top priority for the Macron government. The [Action Plan for Business Growth and Transformation](#), which parliament approved in April, aims to privatize some state assets, streamline business operations, and strengthen the country's small and medium-size enterprises (SMEs). The government forecasts these reforms would boost GDP by 0.4 percent by 2025. Additionally, in 2018, the government began a gradual decrease in the corporate income tax rates, which will fall to 25 percent by 2022. Yet, Paris is also pursuing a [digital tax](#), which would impose a levy of 3 percent on certain digital revenue sources of large technology companies, including Amazon, Google, and Facebook.

Although FDI into France fell by more than 40 percent in 2018, hitting approximately \$29 billion, this decrease was in line with the 40 percent decline in FDI to developed markets last year. France remains competitive in indicators driving investment intentions. For example, along with tax rates and ease of tax payment, innovation and technology capabilities rank as the most important factors for investors in this year's survey. Two recent deals highlight France's ability to capitalize on its strengths in these areas to attract FDI. US pharmaceutical giant Merck announced the

acquisition of high-tech animal health company Antelq in 2018 for about \$3.7 billion. And a Chinese medical devices manufacturer recently revealed plans to make a \$400 million investment in its company center in the French city of Clamart.

Italy

Italy moves up two spots to eighth place—the country’s highest ranking since 2002, when it placed sixth. Somewhat paradoxically, investors appear largely unperturbed by recent economic weakness in the country. Italy entered a technical recession after two quarters of negative growth in 2018, and the IMF lowered its 2019 GDP forecast to just 0.1 percent. Weighing negatively on Italy’s economic outlook are the continued absence of structural reforms to reduce Italy’s high debt load—the second highest in the eurozone—and a potential increase in government borrowing costs.

Italy’s political environment is less volatile than it was a year ago, which may in part explain its rise in the rankings. The coalition government elected in March 2018 merged the fiscally conservative and Eurosceptic Northern League with the anti-establishment Five Star Movement. While anti-EU rhetoric prior to the election alarmed the business community, the parties have moderated their extreme political and economic positions since coming to power. Most notably, the government has abandoned prior calls to leave the eurozone, instead pledging a [commitment to the single currency](#) (subscription required) and the EU. And following EU warnings that its budget for 2019 could worsen finances, the government agreed to postpone planned reforms—including a monthly stipend to Italy’s poorest and a lower retirement age—and potentially [raise the value-added tax \(VAT\)](#) to offset future government spending associated with these measures. Investors are perhaps also optimistic that these measures, when introduced, along with planned tax cuts may encourage consumption and boost employment levels.

Italy’s appeal to investors is likely also a result of its innovative style and cultural attractiveness, as evidenced by the enduring strength of luxury Italian brands such as fashion company Versace and vehicle manufacturer Lamborghini. In addition, investors may be drawn to Italy for its strong manufacturing sector, which comprises nearly a quarter of the country’s GDP and boasts the fifth-highest [manufacturing trade surplus](#) globally. Indeed, our survey indicates that investors in the industry sector are among those who have the highest confidence in investing in Italy in the coming years. In one of the largest M&A deals announced last year, for instance, Japanese automotive products manufacturer Calsonic Kansei will purchase Italian automotive company Magneti Marelli for more than \$7 billion. And China-based consumer electronics company Qingdao Haier acquired household appliances producer Candy SpA for \$730 million.

Spain

After tumbling by four spots to 15th place last year, Spain regains the 11th position in this year’s Index. FDI flows, which tripled to nearly \$70 billion in 2018 according to preliminary UNCTAD estimates, largely reflect returning business optimism. These results indicate that investors are largely unfazed by political uncertainty in Spain. When our survey was in the field, the country’s far-right political party Vox had just emerged with its first major gain in the December 2018 regional elections, and in April, Spain held its third general election in just four years.

Positive economic prospects are likely a key driver of investor optimism. Spain’s economic indicators are improving across the board following years of economic trouble. Economic growth is forecast to reach 2.1 percent in 2019 and then soften to around 1.6 percent in the medium term. At 14.5 percent, the unemployment rate—while still high compared with other major economies—has halved from its 2012 level. Labor productivity and costs have also

remained very competitive in comparison to other major markets. Similarly, Spain's financial system shows growing signs of recovery, with [lending rates increasing](#) (subscription required) significantly. An improving economic climate is also likely driving the surge in [international private equity](#) flows to Spain, which exceeded \$4.5 billion in 2018.

Investor confidence is particularly visible in [renewable energy deals](#), as Spain was the largest European destination for such investments last year. In one of the largest deals, US clean energy company TerraForm Power acquired Spanish wind and solar electricity company Saeta Yield for approximately \$1.2 billion. And China-based hydroelectric company China Three Gorges announced the purchase of Spanish wind electricity company EDP Renovaveis for more than \$1.3 billion. There were major deals in other sectors as well, including Italian transportation company Atlantia and German construction company ACS-Hochtief acquiring a majority stake in Spanish toll road operator Abertis for approximately \$30 billion, creating the [world's largest toll road operator](#).



Investor confidence is particularly visible in renewable energy. Spain was the largest European destination for such investments last year.

Netherlands

The Netherlands moves up one spot to rank 12th, the country's highest ranking in the history of the Index. This performance builds on its strength in attracting investment last year. FDI flows to the Netherlands rose by 11 percent to \$64 billion, according to estimates by UNCTAD, bucking the trend of reduced FDI flows to many developed markets throughout Europe. Investor sentiment is likely being buoyed by the country's economic upswing. In 2018, the Dutch economy reached 2.5 percent GDP growth, outperforming eurozone growth by 0.7 percentage points, but it is projected to decelerate 2019—to 1.8 percent—amid global economic weakening.

The Netherlands' relative attractiveness likely also results from an array of strong business environment indicators. According to the latest [IMD World Competitiveness Rankings](#), for instance, the Netherlands is the most competitive country in Europe and the fifth most competitive globally. The country also ranks fifth in the 2018 [International Tax Competitiveness Index](#)—an important indicator of its FDI attractiveness because tax rates and ease of payments is one of the top factors investors consider when choosing where to invest. The Netherlands has therefore become a hub for a growing number of companies [moving operations out of the United Kingdom](#) because of Brexit uncertainty, including Japanese electronics company Sony. However, Brexit also raises the risk of potential trade losses with the United Kingdom, which is a key trading partner. The economic impact is expected to be relatively modest, though, with the [Netherlands Bureau for Economic Policy Analysis](#) projecting a GDP loss of just 1.2 percent by 2030.

Investor confidence in the country varies significantly by sector and by region. Investors based in Europe are most interested in FDI flows into the Netherlands, while investor interest from companies in Asia Pacific and the Americas is comparatively lower. There is also significant confidence in investing in the Netherlands among investors in the IT sector, which was reflected

in robust deal activity. Last year, China's smartphone maker Wingtech Technology announced the acquisition of a majority stake in Dutch semiconductor Nexperia for more than \$3 billion. And Belgian automotive company Bridgestone announced the purchase of Dutch software company TomTom Telematics for more than \$1 billion.

Switzerland

Switzerland falls four spots to 13th even as its score improves slightly from last year. The increase in the country's score comes despite the fact that Switzerland was among the countries most significantly impacted by earnings repatriations following the US tax reform in late 2017. As a result, Switzerland experienced net negative FDI flows of \$141 billion in 2018.

Switzerland's economic growth was nevertheless robust last year, registering 2.5 percent growth. But global economic headwinds are expected to push GDP growth down to 1.1 percent in 2019. As the second most-globalized economy in Europe and third in the world on DHL's 2018 Global Connectedness Index, Switzerland's export-dependent economy is highly exposed to political and economic instabilities abroad. Top risks this year include a weakening global economy and potential spillovers from Brexit. The economy may take an additional hit if Switzerland's relationship with the EU weakens. When our survey was in the field, protracted negotiations over the framework governing Switzerland's access to the EU single market reached an impasse. Bern's access to the single market was extended for a six-month period by the EU, and it is now set to expire in June. This issue could be affecting business confidence in the Swiss market and contributing to its relative fall in the Index ranking.

In 2017, more than 55 percent of FDI in Switzerland was concentrated in the [finance and holding sectors](#). However, improvements in the relative competitiveness of other countries—such as the tax reforms in the United States—may contribute to a decrease in investment appeal. Significant M&A activities continued, though. French payment processing solutions company Worldline SA, for instance, acquired Swiss company SIX Payment Services for about \$3.2 billion. And the chemicals and plastics sector has recently attracted higher investment inflows. Last year, for example, Saudi Arabian chemicals manufacturer SABIC acquired nearly a quarter stake of Swiss Clariant for approximately \$2.5 billion.

Denmark

Thanks to a significant increase in the country's score this year, Denmark achieves its highest ranking in the history of the Index, jumping six spots to 14th. According to estimates by the [Danish National Bank](#), FDI inflows declined by approximately \$1.6 billion in 2018. But while FDI flows took a hit, economic growth remained robust and is expected to reach 1.7 percent this year, which is above the 1.2 percent growth it achieved in 2018. A potential "no deal" Brexit, however, could reduce demand for Denmark's exports and dampen overall economic activity.

Strong investment intentions are likely driven by a number of beneficial characteristics of the Danish business environment. For example, Denmark consistently outperforms all other European countries as the country with the most business-friendly regulatory framework in the World Bank's [Doing Business 2019](#) report. And the country performs well on many of the top factors that investors consider when choosing where to invest (see figure 6 on page 9). It is ranked as the country with the least corrupt public institutions in the world in Transparency International's 2018 [Corruption Perceptions Index](#), as the [most digitalized economy in Europe](#) by the Organisation for Economic Co-operation and Development (OECD), and as having the second-highest human capital globally in the latest IMD [World Talent Ranking](#). In addition, Denmark is the eighth most-connected country in the world, according to DHL's 2018 Global Connectedness Index.

Denmark's strong performance on the Index indicates that investors appear largely unmoved by the recent global money-laundering scandal surrounding Danske Bank, the largest Danish bank. The bank suspended operations in Russia and the Baltic countries, but the long-term effect on the confidence in the country's financial system is uncertain. For now, M&A activity remains strong, and there were several major cross-border deals last year. For example, Germany-based hearing aid manufacturer Sivantos merged with Danish Widex Holdings in a transaction valued at about \$4 billion. In another major deal, Japanese IT company NEC acquired KMD, the largest Danish IT company, for approximately \$1.2 billion.

Sweden

Sweden falls one spot to 15th after rising to an all-time high of 14th in last year's Index. But the country's score improves marginally this year, reflecting continuing investor confidence in the market. Sweden's overall economic indicators are positive, and the economy reached 2.3 percent growth in 2018. Despite strong exports and robust domestic consumption, the IMF expects GDP growth to decrease to 1.2 percent this year. And the country's weakening housing market may reduce consumer spending growth in the coming years.

With investors overwhelmingly pointing to political instability in developed markets as an expected risk this year, they are likely closely monitoring political developments in Sweden. The far-right Sweden Democrats party achieved stunning electoral gains in the September 2018 elections. Centrist parties managed to prevent the party from joining the government that formed in January, but the Sweden Democrats may become a louder voice in Swedish politics in the future. In the short term, the outlook may be more positive for investors. The new minority government's stated economic priorities include lowering [personal and corporate tax rates](#), which are likely to further strengthen the country's investment environment. Sweden already ranks 12th globally on the World Bank's *Doing Business 2019* report and third in Europe on Transparency International's 2018 Corruption Perceptions Index.

Given that the European Innovation Scoreboard notes that Sweden remained yet again the [most innovative country](#) in Europe, it is no surprise that investors in the IT sector are most confident about investing in Sweden in the coming years. While statistics by the [Bank of Sweden](#) indicate that FDI inflows decreased modestly in 2018, by approximately \$0.5 billion to \$10.4 billion, large-scale M&A activity remained robust. US investors accounted for the highest number of acquisitions in the country over the past year. In the largest deal of 2018, for instance, US food company Mars acquired Swedish veterinary care provider AniCura for more than \$2.3 billion. In another high-profile transaction, US payment company PayPal acquired Swedish financial technology company iZettle for more than \$2 billion.

Belgium

Belgium's score increase is among the largest in the top 25 markets this year, moving the country up three spots from last year to rank 18th. This is Belgium's highest ranking in the history of the Index. One reason for Belgium's increased attractiveness to investors may be its stable economic indicators. The IMF expects the country's economic growth to remain positive this year, at around 1.3 percent, and strengthen to about 1.5 percent by 2024. And the World Economic Forum's *Global Competitiveness Report* ranks Belgium as one of the top countries for macroeconomic stability.

However, the country's political environment has been more turbulent lately. Disagreement over migration policy triggered a political crisis in late 2018, which resulted in a caretaker government after the ruling party lost its parliamentary majority. Upcoming elections at the end of May could usher in more stability. Investors nevertheless appear largely unfazed, despite a high number of

them indicating that they see political instability in a developed market as a possible risk this year. Importantly, the political turmoil has not negatively affected Belgium's regulatory environment. In fact, investors are likely benefitting from the 2018 implementation of the [Belgian Pledge Act](#), which simplifies borrowing and lending practices.

Belgium's services sector accounts for close to 70 percent of GDP and more than 75 percent of employment, but investors in the IT sector are most confident about investing in Belgium, likely a reflection of the country's highly developed information and communications technology (ICT) infrastructure. In fact, multinational IT companies account for about 70 percent of [jobs in the IT sector](#) in Belgium. While recent deals point to a diverse mix of FDI across sectors, the pharmaceutical sector had the biggest deals of 2018. The largest FDI transaction was French pharmaceutical giant Sanofi's acquisition of Belgian biopharma company Ablynx for more than \$5 billion. And Japanese pharmaceutical company Takeda bought cell therapy biomedical company TiGenix for close to \$1 billion.

Ireland's competitiveness for FDI holds true at the city level. The capital, Dublin, was ranked by fDi Intelligence as the top large city globally for FDI in 2018 and 2019.

Ireland

Ireland falls one spot to 20th. The country's score marginally improves, though, indicating more robust investor optimism. However, Brexit represented a significant uncertainty for Ireland in this year's survey. On the one hand, Ireland's significant trade relationship with the United Kingdom makes it the economy most vulnerable to Brexit. On the other hand, some of the potential trade losses may be at least partially offset by Ireland's [strong substitutability](#) with a post-Brexit United Kingdom as an investment destination. British banks Barclays and Lloyd's of London, for example, are among the companies that recently [moved their EU headquarters](#) from London to Dublin.

Ireland has long been among the most competitive markets globally for FDI attractiveness, which holds true at the city level as well. The capital, Dublin, was ranked by [fDi Intelligence](#) as the top large city globally for FDI in 2018 and 2019. Going forward, perhaps one of Ireland's most important competitive advantages will be its highly educated workforce. In 2017, Ireland launched a national plan to make the country the [leader in STEM in Europe](#) by 2026. This emphasis will be a key labor force differentiator in the 21st century digital economy and has likely helped Ireland to become the top FDI destination for [US technology companies](#). In 2017, for instance, the US technology giants invested \$54 billion in Ireland, more than both the United Kingdom (\$51 billion) and the Netherlands (\$33 billion), the next two largest recipients of such FDI.

In 2018, however, overall FDI inflows to Ireland plummeted, largely as a result of the US corporate tax cut in late 2017. Nevertheless, Ireland received several high-profile M&As last year, particularly in the services industry, which accounts for more than three-quarters of the Irish

economy. For example, British bank Barclays acquired the Irish Residential Mortgage Portfolio for more than \$5.3 billion. And Japan-based financial services corporation Orix acquired a 30 percent stake in Ireland-based aircraft leasing company Avolon Holding in a transaction exceeding \$2 billion.

Austria

After ranking 24th for three consecutive years, Austria jumps three spots to 21st on this year's Index due to a score increase. Such strong investor intentions are likely supported by expectations for robust growth in 2019—the IMF forecasts a 2.0 percent GDP increase. Although this would represent a deceleration from the country's 2018 growth rate, Austria's economy will still grow much faster than the 1.3 percent estimate for the eurozone in 2019.

Positive investor intentions may also be shaped by Austria's tax environment. The country's tax system ranks as the 10th best in the world in the 2018 International Tax Competitiveness Index, surpassing countries such as the United States, Canada, and Germany by a wide margin. And a [comprehensive tax reform](#) planned by the government will reduce corporate taxes and personal income tax rates gradually starting in 2020. Pushing in the other direction, though, a tax on digital services is also envisioned. Another area of growing strength is the country's technology sector. Austria is second only to Sweden in terms of government [expenditures on R&D](#) as a percentage of GDP among European countries, and it has devised a [national strategy](#) to further develop its R&D knowhow. Such measures will likely help attract FDI, as investors rank technological and innovation capabilities as a top investment determinant in this year's survey. These capabilities are also visible on a more local level. For example, Austria's capital, Vienna, has developed a vibrant start-up scene, and the city ranks fourth for talent competitiveness in the [Global Talent Competitiveness Index \(GTCI\)](#) published by INSEAD business school.

The largest deal of 2018 was in the ICT field, demonstrating Austria's appeal to investors in the technology sector. South Korean LG electronics acquired a majority stake in Austrian automotive systems manufacturer ZKW for more than \$1.3 billion. Significant activity also occurred in the real estate market. In the second-largest deal of last year, US real estate investment firm Starwood Capital acquired a 26 percent stake in Austria-based CA Immobilien for more than \$880 million.

Finland

Finland makes its second appearance in the Index this year, ranking 23rd. The country's showing is a strong indicator of positive investor sentiment toward the country. The largest investors are Finland's neighbors, with Sweden maintaining much more FDI stock in the country than any other country in recent years, according to [Statistics Finland](#). But inbound FDI in 2017 (the latest year for which data is available) was rather lackluster, dropping slightly from the previous year. The sector that received the most FDI was the services sector, which benefits from Finland's highly skilled labor force.

Finland's economy is expected to slow in the medium term, however, with the IMF forecasting 1.9 percent growth in 2019, but only 1.3 percent by 2024. Along the same lines, the Finnish Ministry of Finance warned at the end of 2018 that rising global trade barriers would be a drag on export growth and investment expectations. In particular, the government expects a decline in investment into the domestic construction sector. Despite these projections, real income and household spending are expected to rise in the coming years, as is labor demand. And, in part due to the country's highly skilled workforce and well-known technology sector, the government is [aggressively pursuing digital transformation](#) in the economy as a form of boosting economic competitiveness. Helsinki is also pushing the broader EU bloc to do the same.

The largest announced FDI deal in 2018 was the acquisition of Finnish sportswear company Amer Sports Corporation by a consortium of Chinese investors for approximately \$6.3 billion. The company, which owns several globally recognized brands, including Wilson, Salomon, and Arc'teryx, will focus on bringing high-end products to Chinese consumers. One of the other large deals in 2018 was the \$560 million acquisition of the Finnish mobile game studio Small Giant Games by the US social game developer Zynga Inc.

Norway

Norway falls from 23rd to 24th in this year's Index, even as it enjoys a slight increase in its score. It rounds out a strong showing for the Nordic countries, as Finland, Denmark, and Sweden also rank among the top 25 markets for FDI this year. All of these countries benefit from large, diverse, and stable economies. Indeed, Norwegian economic growth is forecast to remain positive in the coming years, with its 1.4 percent growth rate from 2018 accelerating to 2.0 percent this year, though it is expected to soften to 1.7 percent in the medium term.

While this growth rate is slower than the global average, the Norwegian central bank is pointing to positive economic momentum and is considering raising interest rates in 2019. If they do so, it will occur at a time when the European Central Bank (ECB) is considering additional monetary stimulus to support growth, underscoring the relatively positive outlook for Norway vis-à-vis the rest of Europe. And given the role of Norway as a major global oil producer, the relatively stable global oil price outlook is another a positive indicator for the economy.

According to [Statistics Norway](#), Sweden and the Netherlands are traditionally the largest investors into the country, and the largest cross-border deal into Norway in 2018—the Swedish TV and broadband company Telia's acquisition of TDC Norway and Get for about \$2.5 billion—supports this trend. Naturally, the oil and gas sector also received some of the largest FDI deals in 2018. But with the rebranding of state-owned oil company Statoil as Equinor in 2018 as part of a push toward renewables, there will likely be continued growth and investment in green energy technologies such as offshore wind as well. This move dovetails with the recent announcement that Norway's sovereign wealth fund—the world's largest—will divest from pure play upstream oil and gas investments, which will further bolster the country's image as a green energy champion (while also reducing the exposure of the fund to swings in global oil prices).

Asia Pacific

Investors remain keenly interested in Asia, with developing Asian countries in particular posting some of the largest year-on-year gains in FDI inflows in 2018, according to UNCTAD. Notably, China and India both attracted higher levels of FDI inflows in 2018, ranking among the top 10 destinations for FDI inflows. This leadership should come as no surprise given that their size and growth potential reinforce their importance to business growth prospects across sectors, although investor sentiment may wane for both markets in the short to medium term if policy-driven headwinds persist. Meanwhile, developed markets in Asia Pacific appear to be holding steady—or, in some cases, gaining—in their proportion of both inbound FDI and positive investor sentiment. Global economic headwinds remain a key risk for the entire region, however, with significant exposure to US-China trade tensions and a Chinese economic slowdown.

Japan

Japan maintains its sixth-place ranking for the fourth year in a row. The steady ranking belies strong bullish sentiment by investors, who are most optimistic about the country's three-year economic outlook among the top 25 countries on the Index. This optimism comes in addition to a modest economic upturn, with 2018 GDP growth of 0.8 percent projected to increase to 1.0 percent in 2019, though a deceleration to 0.5 percent annual growth is expected over the medium term. Inflation and wage growth, however, remain tepid despite concerted efforts under so-called Abenomics to boost both (although revisions to official statistics may be forthcoming after a calculation error was recently discovered).

Strong investor sentiment has correlated with a steady increase in inbound FDI annually since 2013. The [Japanese External Trade Organization](#) estimated that the total stock of FDI will be 4.5 percent higher in 2018 than in 2017, in large part due to FDI from European and Asian countries. Indeed, inbound FDI stock from Asia grew tenfold from 2000 to 2017, and this trend is expected to continue. The improving business environment is also likely a factor in positive investor sentiment. Tokyo recently lowered the effective corporate tax rate from 29.97 percent to 29.74 percent. And the government also established the [Regulatory Sandbox](#) scheme in 2018, which is intended to boost innovation across several sectors, including financial services, healthcare, and mobility and transportation, by enabling companies to more easily leverage the Internet of Things (IoT), artificial intelligence (AI), big data, and blockchain technologies. Importantly, the program targets both domestic and foreign companies.

The Japanese economy and investment environment will likely also benefit from Tokyo's increased commitment to free trade. For example, the free trade agreement signed with the EU at the end of 2018 will remove tariffs on 94 percent of Japanese goods and 99 percent of EU goods. Japanese automakers, in particular, are expected to benefit from the agreement, as EU duties on both vehicles and parts will be phased out over a seven-year period. And the CPTPP, which went into effect at the end of 2018, makes Japan part of a massive free trade zone that covers 13 percent of the global economy. One of the largest cross-border M&A deals in 2018 was the acquisition of the Japanese skincare company Ci:z Holdings by US healthcare conglomerate Johnson & Johnson for more than \$2 billion.

China

China falls to seventh place this year. In addition, it is one of only two markets to see its score fall from the prior year. Investors nevertheless continue to view China as an attractive investment destination. It remains the only emerging market that ranks among the top 10 markets for FDI globally, and it is one of only two emerging markets to have consistently ranked among the top 25 markets for FDI since the Index was launched in 1998. (The other one is India.)

Investor concern regarding China's three-year economic outlook is growing, however, both relative to the other markets in the Index and compared with its own performance last year. This decline could be in part the result of a slowing domestic economy, declining exports, growing concerns over high corporate debt levels, and the impact of the US-China trade war. The IMF forecasts the Chinese economy will grow 6.3 percent in 2019. While this growth rate is substantially faster than the expected global growth of 3.3 percent, it represents China's slowest annual growth rate since 1990. As a result, the government will likely continue to look for ways to stimulate economic growth. The central bank, for example, significantly cut the reserve requirement for banks to promote lending. And the government also cut taxes and boosted its infrastructure spending.

Inbound FDI in 2018 proved resilient to China's growing economic headwinds. Even as global FDI inflows fell by 19 percent, UNCTAD reported a 3 percent increase in Chinese inbound investment, from \$137 billion to \$142 billion. And in terms of cross-border M&A into China, about half of the 25 largest deals came from Japanese and US investors. So while the US-China trade war did not translate into reduced FDI last year, it could begin to negatively affect inbound FDI in the coming year. Indeed, some companies are relocating production outside of China as a part of a broader reconfiguring of global supply chains. In December 2018, for instance, the US camera company GoPro announced that it would stop producing products intended for the US market in China. Beijing is seeking to counteract such trends by engaging in important [market reforms](#) (subscription required), including harmonizing foreign investment laws and allowing greater access to several sectors for foreign investors, including the [financial sector](#).

Australia

Australia's position slips from eighth to ninth in this year's Index. Its score remains effectively flat, however, suggesting steady investor confidence in the FDI environment. Indeed, Australia has been ranked among the top 10 countries for nearly a decade.

Annual GDP growth is expected to be 2.1 percent in 2019, which is down from 2.8 percent in 2018 but still in solidly positive territory. And Australia's stable image is boosted by the fact that it is the record holder for the longest period of uninterrupted economic growth in the developed world—now exceeding a quarter century. Despite the strong and steady nature of the Australian economy, there are risks on the horizon, including historically low wage growth and downward pressure on the Australian dollar. The [Australian housing market](#) is also slowing, led in part by a decline in foreign investor interest, which hit a seven-year low in late 2018. These economic concerns are a top campaign issue in the 2019 Australian federal elections, which must conclude by early November. Given that the campaigns are ongoing, any significant economic policy action is not expected until after the new government takes office.

Australia continues to attract strong FDI inflows. According to UNCTAD, FDI inflows to Australia increased 39 percent from 2017 to 2018, placing it eighth in the world in terms of total FDI flows. Eight of the top 25 cross-border deals in 2018 were in the metals, mining, and energy sector. The largest announced M&A deal was in the health sector, with Canada-headquartered Brookfield Business Partners acquiring Healthscope Ltd., the largest private hospital operator in Australia, for \$4.1 billion. Geopolitical factors, however, may reduce future FDI into Australia. For instance, a nearly \$10 billion deal—the acquisition of the natural gas pipeline company APA Group by Hong Kong SAR-based CK Infrastructure Holdings—was blocked by the Australian government because it would have provided control of critical infrastructure connected to the national gas network.³ Indeed, data from the [Australian National University](#) showed that mainland Chinese FDI into Australia already declined by 40 percent between 2016 and 2017.

Singapore

At tenth place, Singapore returns to the top 10 in this year's Index after a one-year hiatus. Its score also increases this year to its highest level since 2015. And investors' outlook for Singapore's economy is one of the most optimistic this year (see figure 11 on page 13). The 2019 economic outlook is weakened from years prior, however, with the IMF forecasting 2.3 percent growth in 2019, down from 3.2 in 2018. An uptick is expected in the 2020–2024 period to around 2.6 percent growth annually. The Singaporean Ministry of Trade and Industry has highlighted the slowdown in major demand markets such as the eurozone and ASEAN-5

³ SAR stands for special administrative region.

economies as a key explanation. Singapore's manufacturing and outward-oriented services sector are expected to suffer from the weak external demand outlook.

Singapore's world-class business environment remains one of the top drivers of its economic strength, making it a global powerhouse across a range of sectors from logistics to finance, despite hosting just 0.08 percent of the global population. It was ranked second in the World Bank's *Doing Business 2019* and third in the World Economic Forum's *Global Competitiveness Report*. Some of Singapore's strongest metrics across these rankings are its contract enforcement and intellectual property protections. These strengths will likely ensure that the country remains an attractive place to invest in a digital world in which investors are prioritizing such regulatory and governance factors in their investment decisions. Singapore's government seems to recognize the importance of cross-border digital trade to its economy, acting as one of the drivers behind the new World Trade Organization (WTO) [negotiations on e-commerce](#).

In recognition of the importance of cross-border digital trade, Singapore is one of the drivers behind the new WTO negotiations on e-commerce.

Singapore was the fifth-largest recipient of FDI inflows in 2018, totaling \$77 billion, according to UNCTAD. Other Asian economies are the biggest investors into Singapore, with approximately \$9 billion out of the \$10 billion in cross-border M&A originating within the region. The two largest investments—each worth \$2 billion—were in the fast-growing e-commerce space. The first is Alibaba's second major investment into Lazada, the e-commerce platform focused on Southeast Asia. The Chinese technology titan now owns 83 percent of the company. The second was the investment by Toyota and others in the regional ride-hailing service Grab.

India

Despite being the fastest-growing major economy in the world, India paradoxically drops to 16th place on the Index this year. This follows a trend of weakened rankings in recent years and reinforces a shift from the 2004–2013 period, when India consistently ranked in the top five. India is also one of only two countries with a score that falls this year. But India remains one of just three emerging markets on the Index, reflecting its ongoing importance to the global economy and its market significance for investors across a range of sectors given its sheer size and growth potential.

Despite losing ground on the Index this year, investor optimism about the Indian economy remains high. Approximately twice as many investors are more optimistic about India's three-year outlook than pessimistic (see figure 11 on page 13). Indeed, economic growth is expected to remain well above 7 percent annually through 2024. And India ranks 77th in the World Bank's *Doing Business 2019*. This ranking represents a substantial increase from its previous highest-ever 100th place ranking in 2018. The FDI outlook remains strong as well. UNCTAD estimates that FDI inflows to India rose 7 percent last year and that cross-border M&As hit an all-time high of \$33

billion. Some estimates indicate that [India's M&A activity surpassed China's](#) in 2018 for the first time in two decades. The most substantial foreign investment in India in 2018 was by far the \$16 billion acquisition of a 77 percent stake in Flipkart by Walmart, completed in August.

The paradox that India's score dropped despite this strong FDI position may be partially explained by uncertainty surrounding the long-term impact of some new foreign investment policies. These include regulations on foreign investment into the fast-moving e-commerce space and on global payments processors. Indeed, Walmart's investment in Flipkart hit a rough patch after it was affected by the new e-commerce restrictions put in place in late 2018. And investors may have been in a wait-and-see mode ahead of the ongoing Indian general election, the outcome of which could affect the trajectory of the country's investment environment.

South Korea

South Korea ranks 17th this year—a one spot increase from its position the prior two years—reflecting the steady attraction of foreign investors. The economy is similarly holding stable, with the IMF expecting the 2.6 percent GDP growth in 2019 to strengthen to 2.9 percent over the medium term. Such economic strength is likely helping to attract FDI. The [Korean Ministry of Trade, Industry and Energy](#) announced that FDI commitments made in 2018 were approximately \$27 billion—17 percent higher than the year prior and the fourth year in a row in which FDI commitments have surpassed \$20 billion. Pledged investments from Europe and the United States both increased by about 25 percent, whereas pledged investment from China ballooned by a whopping 239 percent.

Going forward, the South Korean government is specifically targeting investors in Fourth Industrial Revolution (4IR) technology in 2019, including autonomous vehicles, biotechnology, and other emerging areas. Indeed, South Korea opened K-City in Hwaseong, Gyeonggi Province at the end of 2018, which is trumpeted as the world's first fifth-generation (5G) testing site for autonomous vehicles. The country has also pushed hard to become the first to roll out 5G networks for commercial use in 2019 and is therefore a top market in the [global 5G race](#).

One of the biggest cross-border deals in 2018 was US-based Biogen's increased stake in Samsung Bioepis—a pharmaceuticals biosimilars partnership between Biogen and Samsung BioLogics—from 5.4 to 49.9 percent. Another large deal was the acquisition of the South Korean cosmetics and fashion firm Nanda by France's L'Oréal for nearly \$511 million. The acquisition highlights the fast-growing Korean beauty industry, which is enjoying growing demand domestically and in foreign markets such as China.

New Zealand

New Zealand first debuted on the FDI Confidence Index in 2017 in the 23rd position. After jumping to 16th in 2018, the country falls slightly to 19th this year. Investors remain keenly interested in the New Zealand market, though, as evidenced by its score increasing somewhat from last year. One reason for continued investor confidence may be New Zealand's economy remaining notably steady. The IMF expects that the 3.0 percent GDP growth rate seen in 2018 to decelerate to 2.5 percent this year and to remain at that level in the medium term. This relatively robust growth is remarkable given the persistent global economic headwinds in many other developed markets.

There are other likely reasons that New Zealand remains a top FDI destination as well. One of the most important is the country's business-friendly regulatory environment. It is the top-ranked economy in the World Bank's *Doing Business 2019*, with a score significantly higher than the average of other OECD high-income countries. However, the 2018 amendment of the [Overseas](#)

[Investment Act](#) may dampen investor confidence in the country somewhat. Following a 65 percent rise in housing prices in the 10 years to 2018, the amendment dedicated all existing residential land as “sensitive,” banning foreigners from purchasing homes in the country. This restriction could have a lasting negative impact on the housing market, which may reverberate to other areas of the economy.

New Zealand’s food and beverage sector accounts for nearly 50 percent of the country’s total goods and services exports. It may come as no surprise then that one of the major FDI deals in 2018 was Danone’s announced acquisition of a 49.9 percent stake in Yashili New Zealand Dairy Company, which produces a range of dairy products for domestic consumers as well as those in China. The economy is also greatly exposed to global economic headwinds, however, particularly from China, the United States, and Europe. Indeed, according to the most recent official statistics, its [top five sources of FDI stock](#) are Australia, the United States, Hong Kong, the United Kingdom, and Japan.

The South Korean government is specifically targeting investors in Fourth Industrial Revolution technology, including autonomous vehicles, biotechnology, and other emerging areas.

Taiwan (China)

Taiwan (China) returns to the top 25 rankings of the FDI Confidence Index this year in 22nd place after a two-year hiatus. Investors are also fairly bullish about its three-year economic outlook, with more than twice as many investors more optimistic than pessimistic about the island’s economy this year. The IMF is forecasting economic growth to slow in the coming years, however, falling from 2.6 percent growth last year to 2.5 in 2019 and to 2.1 percent in 2024.

External headwinds—particularly the Chinese economic slowdown and trade tensions with the United States—are a challenge for the local economy. In addition, official forecasts have cited the slowing demand for electronics, especially smartphones, as justification for downgrading near-term growth expectations. Recent trends in the [Nikkei Taiwan Manufacturing Purchasing Managers’ Index](#) (PMI) suggest an accelerating economic contraction in the manufacturing sector. Increased tensions between Beijing and Taipei are another challenge. Nonetheless, the business environment remains positive, as evidenced by its 13th place ranking in the World Bank’s *Doing Business 2019*—a rise of two places from the year prior. And in 2018, the government approved a massive urban and rural [infrastructure investment package](#) that will support the modernization of energy, digital, railway, water, and other key systems. Taipei is also engaged in discussions with the EU, its fifth-largest trading partner, on a bilateral investment agreement.

Taiwan (China) has long been a global leader in manufacturing and the production of electronics. It is therefore no surprise that some of the largest deals in 2018 were in those sectors. The largest was the announced \$700 million investment by Japan’s Hitachi into

elevator supplier Yungtay Engineering Co. Ltd. The second largest was the sale of Lite-On Technology's camera module for smartphones business to the Hong Kong-based LuxVisions Innovation Ltd. for \$360 million.

Conclusion and Business Implications

Today's global operating environment is replete with paradoxes. Even as digital technologies enable greater global connectivity than ever before, global integration is becoming more challenged, and there is an ongoing shift toward regionalization of economic activity and interconnectedness. In addition, while country-level politics are characterized by populism and nationalism, more globally-minded cities are rising in importance in terms of both economic prowess and political leadership. And despite high levels of geopolitical risk, the global macro-economic outlook remains relatively strong—although it is weakening relative to recent years. Each of these paradoxes, ultimately, is indicative of the rise of the age of multi-localism.

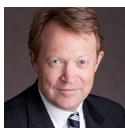
Understood in this context, the mixed signals that investors present in this year's FDI Confidence Index results are less anomalous than they appear at first glance. Indeed, many of the seeming inconsistencies can be explained by the fact that the localization trend that emerged in last year's Index has gained strength. This emphasis is likely to continue in the coming years, which will sustain the importance of FDI to profitability and competitiveness as companies seek to become local players in the markets in which they operate.

To compete in this environment, companies will need to enhance regional supply chains and devolve management and operations to the local level. And countries seeking to improve their competitiveness in attracting FDI should therefore focus on engaging in more regional economic integration and fostering the dynamism of their largest cities.

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Appendix: About the Study

The A.T. Kearney Foreign Direct Investment (FDI) Confidence Index® is an annual survey of global business executives that ranks markets that are likely to attract the most investment in the next three years. In contrast to other backward-looking data on FDI flows, the FDI Confidence Index provides unique forward-looking analysis of the markets that investors intend to target for FDI in the coming years. Since the FDI Confidence Index's inception in 1998, the countries ranked on the Index have tracked closely with the top destinations for actual FDI flows in subsequent years.

The 2019 FDI Confidence Index is constructed using primary data from a proprietary survey of 500 senior executives of the world's leading corporations. The survey was conducted in January 2019. Respondents include C-level executives and regional and business leads. All participating companies have annual revenues of \$500 million or more. The companies are headquartered in 30 countries and span all sectors. The selection of these countries was based on UNCTAD data, with the 30 countries represented in the Index originating more than 90 percent of the global flow of FDI in recent years. Service-sector firms account for about 44 percent of respondents, industrial firms for 33 percent, and IT firms for 18 percent.

The Index is calculated as a weighted average of the number of high, medium, and low responses to questions on the likelihood of making a direct investment in a market over the next three years. Index values are based on responses only from companies headquartered in foreign markets. For example, the Index value for the United States was calculated without responses from US-headquartered investors. Higher Index values indicate more attractive investment targets.

FDI flow figures presented in this report are the latest statistics available from UNCTAD, and all 2018 figures are estimates. The data on specific FDI deal values is from Dealogic unless otherwise noted. All economic growth figures presented in the report are the latest estimates and forecasts available from the International Monetary Fund unless otherwise noted. Other secondary sources include investment promotion agencies, central banks, ministries of finance and trade, relevant news media, and other major data sources.

For past editions of the FDI Confidence Index, please go to:

www.atkearney.com/foreign-direct-investment-confidence-index.



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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.

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