

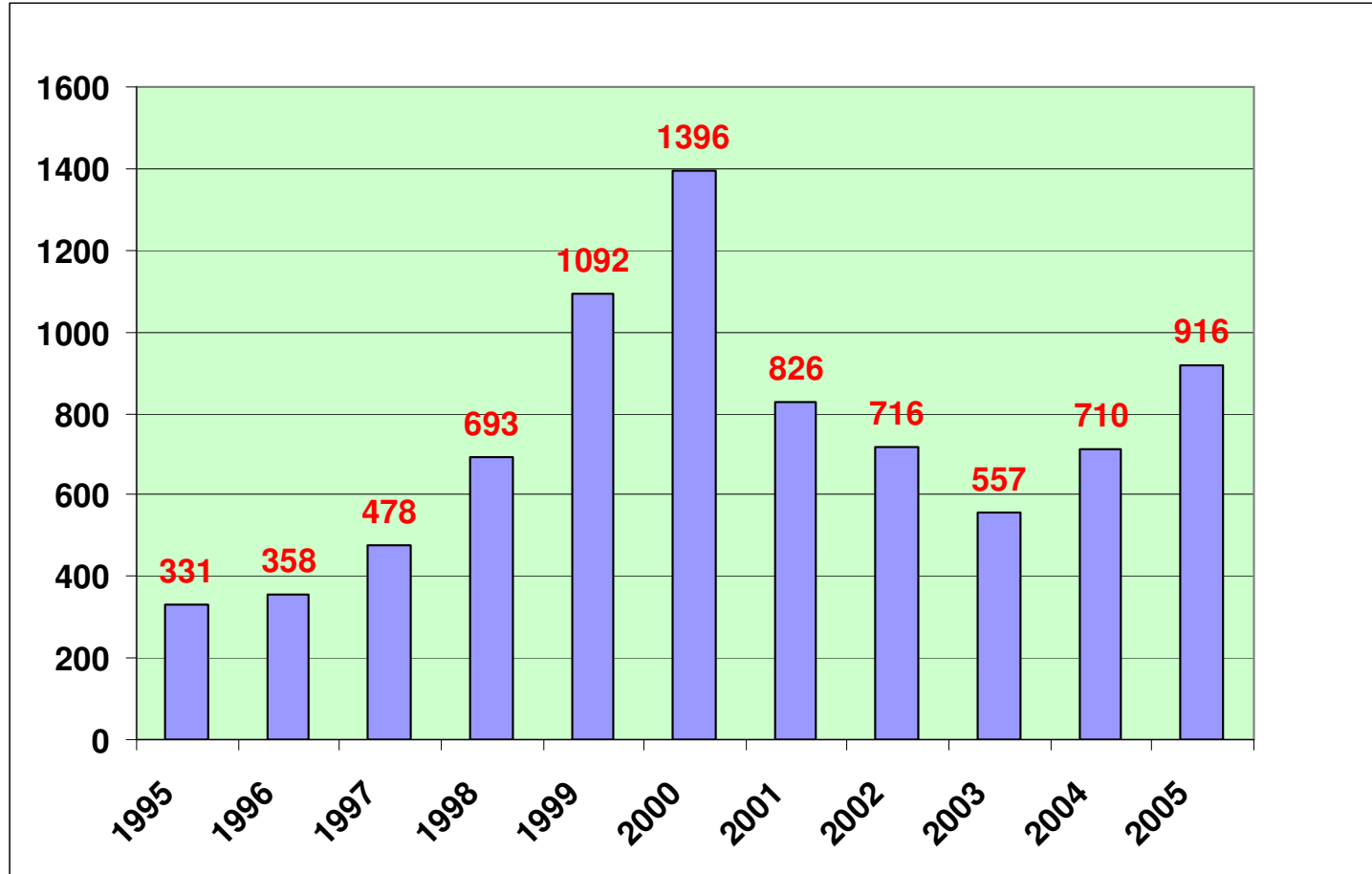
**UNCTAD
WORLD INVESTMENT REPORT
2006**

INTERNATIONAL INVESTORS ASSOCIATION

**16.10.2006
ISTANBUL**

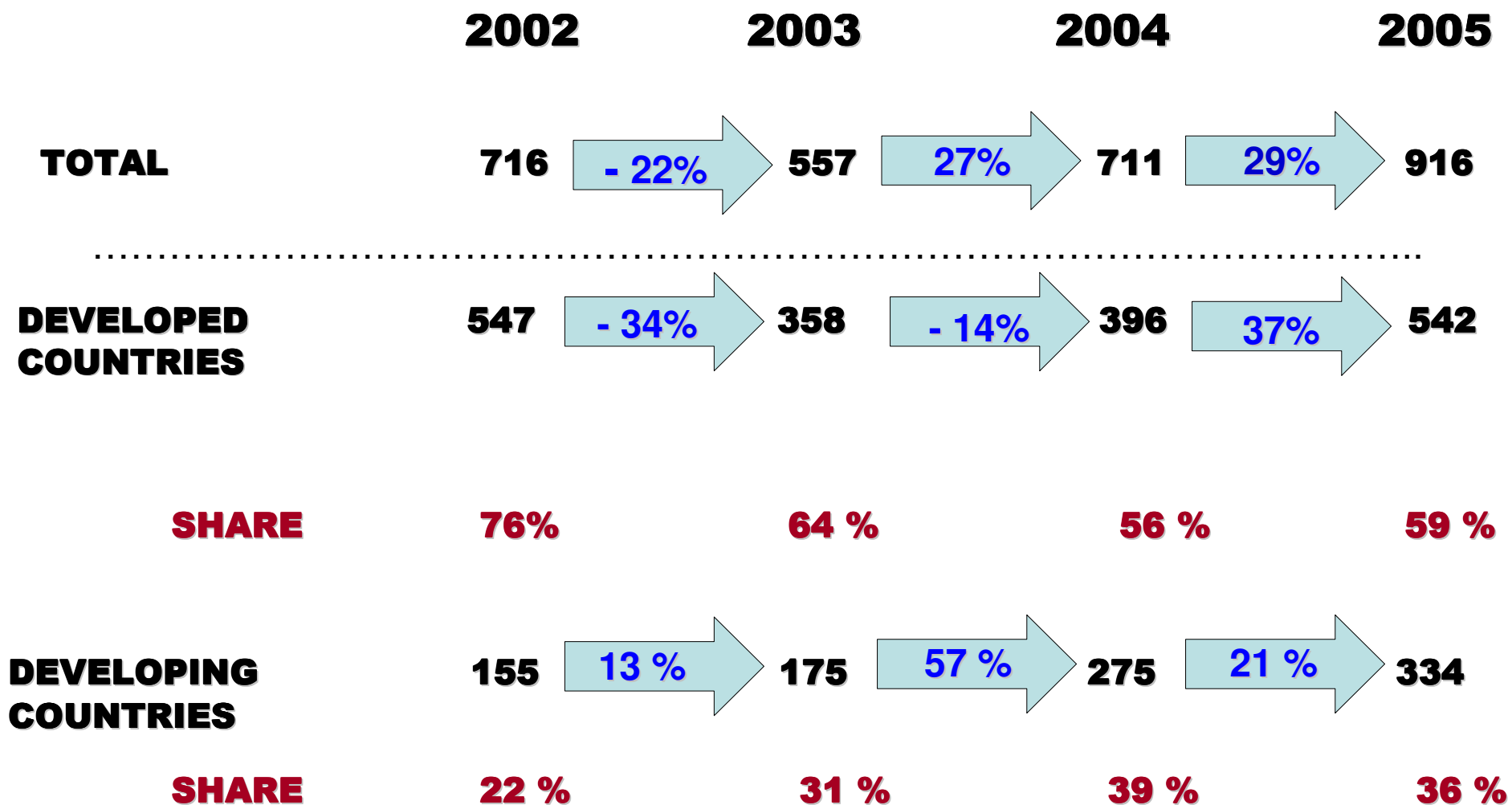
GLOBAL FDI INFLOWS

(Billions of dollars)



BREAKDOWN OF FDI INFLOWS BY ECONOMY

(Billion \$)



TOP 10 IN FDI INFLOW RANKING (2005)

(Billion \$)

1. UNITED KINGDOM	164.5
2. USA	99.4
3. CHINA	72.4
4. FRANCE	63.6
5. HOLLAND	43.6
6. HONG KONG	35.9
7. CANADA	33.8
8. GERMANY	32.7
9. BELGIUM	23.7
10. SPAIN	22.9

TURKEY (22)

9.7

TOP 10 IN FDI OUTFLOW RANKING (2005)

(Billion \$)

1. HOLLAND	119.5
2. FRANCE	115.7
3. UNITED KINGDOM	101.1
4. JAPAN	45.7
5. GERMANY	45.6
6. SWITZERLAND	42.9
7. ITALY	39.7
8. SPAIN	38.8
9. CANADA	34.1
10. HONG KONG	32.6

FDI STOCKS (2005)

(Billion \$)

1. USA	1625
2. UNITED KINGDOM	816
3. FRANCE	600
4. HONG KONG	532
5. BELGIUM	492
6. HOLLAND	463
7. GERMANY	502
8. SPAIN	367
9. CANADA	356
10. AUSTRALIA	210

FDI INFLOWS INTO TURKEY

(Million \$)

1995	885
1996	722
1997	805
1998	940
1999	783
2000	982
2001	3352
2002	1137
2003	1752
2004	2837
2005	9886
2006 (First 8 months)	12407
<u>TOTAL FDI STOCK (2005)</u>	42.2 (Billion US\$)

SELECTED GLOBAL FDI INDICATORS

(Billion \$)

	<u>1990</u>	<u>2004</u>	<u>2005</u>
FDI inflows	202	711	916
FDI outflows	230	813	779
FDI inward stock	1789	9545	10130
FDI outward stock	1791	10325	10672
Cross-border M &As	151	381	716
Sales (of foreign affiliates)	6045	20986	22171
Total assets (of foreign affiliates)	5956	42807	45564
Total exports (of foreign affiliates)	1366	3733	4214
Total employment of foreign affiliates (thousand)	24551	59458	62095
Total GDP	21898	40690	44674
Gross fixed capital formation	4925	8700	9420

DRIVING FACTORS OF THE INCREASE IN GLOBAL FDI FLOWS IN 2005

Macroeconomic Factors

- 1) Continuing economic development in developing markets

Microeconomic Factors

- 2) Surge in financial flows to collective investment institutions
- 3) Increase in stock prices \longrightarrow increase in M&As

Institutional Factors

- 4) Continuing liberization of investment policies
- 5) Continuing liberization of trade regimes

CHARACTERISTICS OF FDI FLOWS IN 2005

- **Increase in the share of M&As in FDI flows (78%)**
- **Increase in FDI stocks of developing countries:**
 - 1995: 335 Billion \$**
 - 2005: 1.4 Trillion \$**
- **Increase in the number of countries performing as FDI sources (developing countries) (Argentina, Chile, India, Turkey, Malaysia)**
- **Increase in sectoral diversity of the industries involved (petroleum exploration, cement, laptop and cellular phones, IT, banking)**
- **Continuation of record corporate profits**
- **Increasing achievements of developing-country TNCs on the global scene (47 TNC in Fortune 500)**

2005 FDI FLOWS : OVERVIEW - I

- **North-South FDI flows play a significant role in global economic growth**
- **FDI flows has started diversification**
- **Intraregional FDI flows are on the rise (South and South-East Asia)**
- **Services gained the most from the surge in FDI (finance, telecommunications and real estate)**
- **In primary sectors, FDI is on the increase**
 - **Oil, gas, mining (Target region for FDI: Africa)**
- **Various global economic imbalances take place**
 - **Economic and political significance of some developing and *transition economies* are on the rise, on account of high FDI inflows**
 - **The increase in cross-border M&As stem from TNCs – spurred FDI inflows in 2005**

2005 FDI FLOWS : OVERVIEW - II

- **Developing and transition economies have emerged as significant outward investors**
 - **Rules of the game are changing rapidly**
 - **Substantial FDI have flown outward from these economies in recent years**

FDI outflows

2005 :133 Billion \$ (13% of global FDI circulation)

1990 : 13 Billion \$ (5 % of global FDI circulation)

Outward FDI stocks:

2005 :1.4 Trillion \$

1990: 150 Billion \$

- **Sectoral breakdown**
 - Primary sectors (oil, gas, mining)**
 - Resource-based manufacturing (metals, steel)**
 - Finance and infrastructure services**
 - Sectors most exposed to global competition (automotive, electronics)**
- **Geographical breakdown**
 - **Intraregional FDI (South- South axis: comprise 90%)**
 - **There are stronger South-South axis FDI flows in effect**
 - **Across regions (Asia - Latin America)**

MOST-FAVORED INVESTMENT LOCATIONS INDEX

(Top 100 TNCs)

<u>Economy</u>	<u>Location Intensity</u>
1. USA	92.0
2. United Kingdom	92.1
3. Holland	89.6
4. Germany	87.4
5. France	83.5
7. Brazil	81.0
10. Mexico	78.0
12. Spain	76.4
16. Czech Rep.	70.0
19. China	66.0
20. Hong Kong	65.6
25. Hungary	55.0
28. Russia	54.0
32. Turkey	50.0

2006 PROSPECTS - I

- **FDI inflows will continue to grow**
 - **High commodity/product prices**
 - **Requirement for natural resources in Asia will continue**
- **Economic growth in developed countries will continue:
3% (2006 – 2007)**
- **Economic recovery in the Euro area will continue**
- **Record high corporate gains will continue**
- **A keen growth in world trade is under way**
2006: 8%
2007: 7.5%
- **High FDI levels achieved through M&As will be maintained**

2006 PROSPECTS - II

Growth of developed economies will slow down

- **Growth in China and India will be slower than 2005**

Growth rate: 7.2 % - 2006
6.6 % - 2007 (IMF 2006 Report)

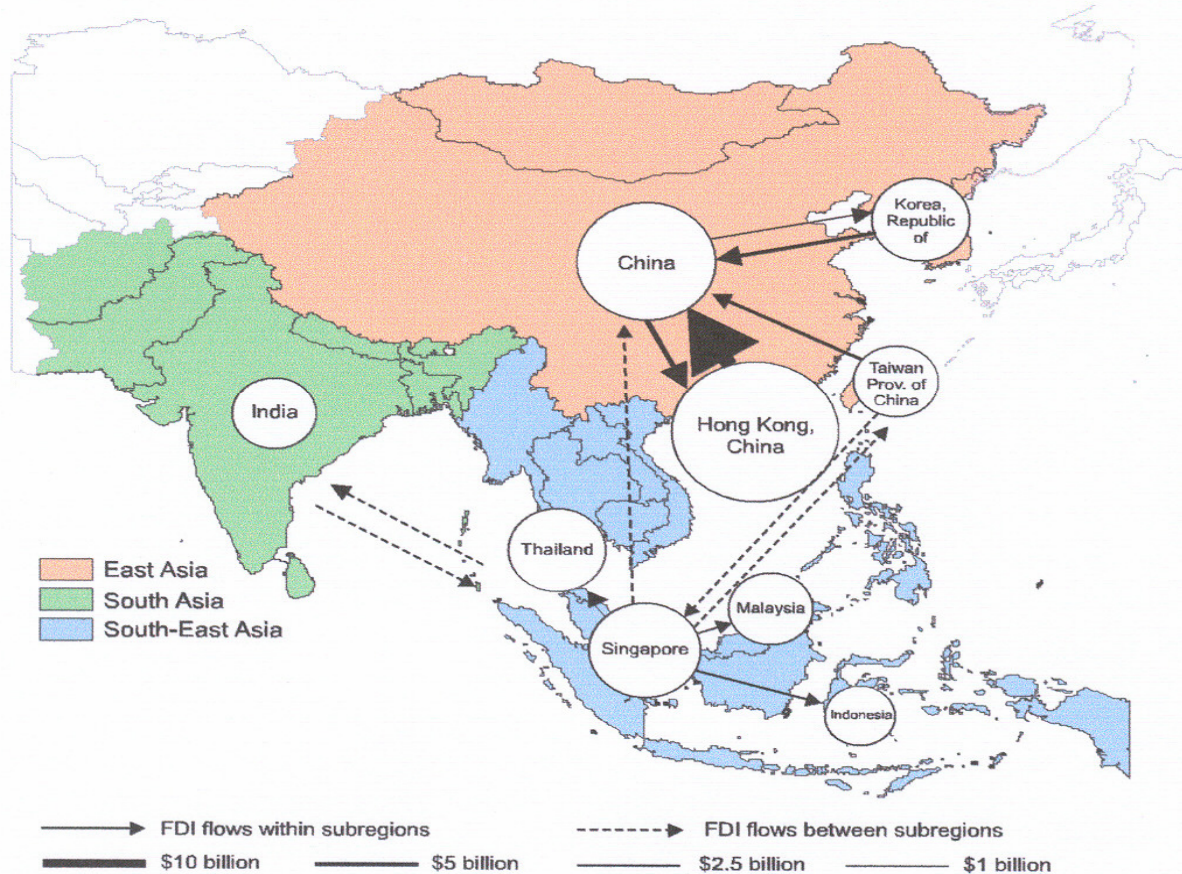
- **High oil prices**
- **Rising interest rates**
- **High inflationary environment**
- **M&As will continue to rise (increased by 39% in first half of 2006)**

MOST FAVORITE DESTINATION OF FDI: SOUTH AND SOUTH-EAST ASIA

- **High FDI inflows to the region will continue**
- **FDI inflows to other economies will slow down:**
 - **FDI into China will continue**
- **Intraregional FDI flows will increase**
- **Substantial FDI inflows into services and high-tech areas will continue**
- **FDI into R&D will continue increasingly**
- **FDI interest in real estate in the region will continue (8.8 Billion \$ in 2005)**

Intraregional FDI flows: South and South-East Asia

Figure II.10. Pattern of intraregional FDI flows in South, East and South-East Asia, 2002-2004 ^a



FDI POLICIES IN SOUTH AND SOUTH-EAST ASIA

- **Continuing to open up their economies**
- **Introducing new incentives for attracting FDI,**
- **Securing the rights and benefits granted to FDI**
- **Continuing to remove administrative barriers**
- **Strengthening support to globalization of domestic companies**
 - **Indonesia– 15-years tax holiday for FDI in special zones**
 - **Korea – Shortened the FDI approval period from 30 to 20 days**
 - **Enacted a new Foreign Investment Law (Transparency, fairness and predictability in administrative procedures)**
 - **Thailand – Introduced new incentives for FDI in pharmaceutical projects**

2006 PROSPECTS FOR SOUTH AND SOUTH-EAST ASIA

- **China, India: Will remain to be the most attractive locations for FDI**
- **FDI *may* continue to rise in China's services**
- **FDI inflows to manufacturing sector will most likely stagnate**
- **Quality of FDI is improving**
- **FDI in services and high-tech manufacturing will gain momentum**
- **2008 Olympic Games will contribute to FDI inflows**

Negative Developments

- **Increasing labor costs**
- **Policy changes regarding M&As**
- **Keen FDI interest in real estate**

Might have negative impacts on FDI growth

NEW MARKETS FOR FDI

- **New leader markets: Emerging markets / China + India**

- **Most favored investment locations**

1. **Brazil**

2. **Russia**

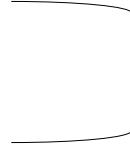
3. **India**

4. **China**

5. **Indonesia**

6. **Mexico**

7. **Turkey**



BRIC



rapid growing economies

- **Investors will decrease their investment in Western Europe**

(Fierce competition stemming from developing markets)

NEW FAVORITE DESTINATION FOR FDI : TURKEY

- **Turkey ranks 13th in A.T. Kearney's FDI Confidence Index**
- **Has moved up to 67th place among 140 economies – Performance & Potential index (2006)**

Success factors

- **Low corporate tax**
 - **Lowering the existing burden on FDI**
- **Ongoing economic reforms**
- **The boom experienced in M&As**
- **The flourishing privatization program**
- **A more clear and simple tax system**
 - **Proceed towards international standards**
- **Increase in number of provinces subject to investment incentives**

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THANK YOU