A.T. Kearney

The 2017 A.T. Kearney
Foreign Direct Investment Confidence Index®

Glass Half Full

Investors are bullish about economic growth and FDI prospects, but are monitoring political risks for abrupt changes to the business environment.

Initially, we were surprised by the results of this year's Foreign Direct Investment (FDI) Confidence Index. Our 2016 Index indicated investors were concerned about the rise of populist policies in the Brexit referendum vote and the US presidential elections. They indicated that should the unlikely happen, they would reduce their investments in both these economies. And yet this year, despite Brexit and the equally unexpected US presidential election outcome, the United States maintains its number one rank on the Index, and the United Kingdom gains one spot to rank fourth.

How can we explain this apparent discrepancy? When we dived more deeply into the results, we saw three explanations.

The first is that the US and UK markets are both large, open economies with relatively efficient regulations, transparent tax rates, and strong technological capabilities. Investors point to these characteristics as the primary factors they consider when determining where to invest. It is important to note that FDI decisions, unlike rapid investment movements in capital markets, typically have a long gestation period and have even longer payout time horizons. Therefore, FDI decisions are less dramatically affected by current developments and more determined by investment fundamentals driving long-term competitiveness. While investors may have been apprehensive about the potential of Brexit or a populist candidate such as Donald Trump winning the US presidential election, the reality is that these economies continue to be reasonably strong bets for foreign investors.

Second is that in a time of rising antiglobalization and protectionist sentiments, investors tell us they are continuing to rely on FDI for growth strategies. In contrast to international trade, FDI enables a company to establish a local presence. Such a localization strategy may become crucial to maintain access in large markets that risk turning inward, including the United States.

And third is the perception that Brexit and US President Donald Trump will be good for business—at least in the short term. UK Prime Minister Theresa May has promised that Brexit means a "Global Britain" will emerge—one with fewer cumbersome EU-mandated regulations and a more rational immigration policy. For his part, President Trump has promised to lower corporate tax rates, slash government regulations, and invest heavily in the renewal of US infrastructure, all of which would be good—very good—for businesses operating in the United States. Whether these perceptions turn out to be true in the medium to long term, we believe, will have an enormous impact on determining whether both countries can maintain their respective positions in the FDI Confidence Index rankings.

Over the almost two-decade history of the FDI Confidence Index, I have seen my share of surprising results. This year certainly did not disappoint, but that is precisely why we continue to conduct our annual survey of global investors each year. These questions provide important insights about the volume and direction of the likely future flow of investments, which support sustainable economic growth.

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

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

Executive Summary

- **The United States tops the Foreign Direct Investment (FDI) Confidence Index for the fifth year in a row.** This streak ties with the longest prior run that the United States had at the top of the Index (ending in 2001), and likely reflects the enduring attractiveness of the US market in terms of sheer size and a relatively open regulatory environment for foreign investment. Investors may also be motivated by protectionist rhetoric, as FDI would give them a local footprint in the world's largest economy. In addition, investors have a very bullish outlook for the North American economy—with the United States and Canada the two domestic economies about which investors are most optimistic this year compared with last year. It is thus no surprise that Canada rounds out the top five in this year's Index.

- **Germany rises to second place, while China drops to third place.** This is Germany's highest ranking in the nearly two-decade long history of the FDI Confidence Index and likely reflects its business-friendly regulatory environment and improving economic prospects. Europe's largest economy might also be benefitting from the fallout from Brexit. After holding the number two position for four consecutive years, China falls to third place this year—despite the fact that investors' outlook for the Chinese economy is much more bullish than it was last year.

- **Europe's share of spots on the FDI Confidence Index falls this year, but the five largest European economies all rise in the rankings.** The number of European markets in the Index falls for the second year in a row to 11 countries. This is still more than any other region (Asia Pacific is second with eight) but may reflect a downward trend in investor interest in Europe overall. However, many European markets—including the five largest European economies—make gains in the ranking this year. Brexit is a likely motivating factor for some of the gains of continental European countries, as investors may relocate there from the United Kingdom. For instance, Germany rises two spots to rank second (as noted above), Sweden makes the largest positive gain in rank (+7) this year, followed by Italy (+3) and Ireland (+3), and France rises one spot. The United Kingdom also rises one spot, which may suggest that businesses that are currently only in continental Europe may be seeking a presence in the post-Brexit UK market as well.

- **Developed markets continue to dominate the Index, but their position is weakening.[1]** After hitting an all-time high of 80 percent of the 25 spots on the FDI Confidence Index in 2016, developed markets account for only 72 percent of the positions in this year's Index. Developed markets still dominate as investment destinations, but this year marks a reversal of a five-year trend in which their share of the spots in the FDI Confidence Index rose each year. The flip side of this is that emerging markets are beginning to stage a comeback, accounting for 28 percent of the spots on the 2017 FDI Confidence Index, up from an all-time low of 20 percent last year.

- **Investors are beginning to diversify their FDI destinations again.** The past two years of the FDI Confidence Index have been characterized by a perceived flight to safety in developed markets, particularly in Europe. However, newcomers to the 2017 Index are diverse: the United Arab Emirates (UAE), New Zealand, and South Africa. This marks the inaugural appearance of

[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.

New Zealand and the first time since 2014 that an African or Middle Eastern country has appeared on the Index. Along with a slight increase in investment intentions in emerging markets generally, this could signal a desire by global investors to diversify the location of their FDI as well as a greater risk appetite than they have had in recent years.

- **The all-too-visible hand of political risk is on full display in how investors determine where to invest.** This year, governance and regulatory issues represent the top three factors—and seven of the top 10—that investors consider when deciding where to invest. This is a marked contrast from last year, when issues relating to market asset and infrastructure accounted for the top two investor considerations and half of the top 10. This may explain why developed markets continue to dominate the Index, as they are generally perceived to be more secure and have more transparent regulatory environments. However, it may also mean investors are monitoring policy and regulatory developments in developed markets more closely than in the past—in fact, significantly more global investors perceive a more restrictive regulatory environment in a developed market as a likely wild card this year than in the past two years.

- **FDI continues to be seen as a channel for growth in an environment of weakening global trade flows and increasing protectionism.** In the current volatile global environment in which globalization seems to be backsliding, investors continue to see FDI as a primary pillar of their growth strategy. As highlighted in last year's Index, this is likely because of rising protectionist sentiments creating the need to establish a local presence in key markets. Although the UN Conference on Trade and Development (UNCTAD) estimates that the global flow of FDI fell in 2016, this was from an unusually high level in 2015 because of a few large M&As. The flow in 2016 was significantly above 2014 levels, and a continued upward trend in the global flow of FDI is likely. In fact, 75 percent of investors told us that they plan to increase their FDI in the next three years.

- **Investors are more bullish on the global economy this year but see rising geopolitical tensions as the top wild-card risk.** Sixty percent of global investors are more bullish on the global economy this year than they were last year, a notable increase from the 50 percent who were more optimistic last year than the year before. In particular, global investors are much more optimistic about the economic outlook for the Asia Pacific and Americas regions this year and are also somewhat more optimistic about the Europe and Eurasia regional economic outlook. However, for the third year in a row, increasing geopolitical tensions top investors' list of likely wild cards.

The 2017 Foreign Direct Investment Confidence Index

The United States tops the A.T. Kearney Foreign Direct Investment (FDI) Confidence Index for the fifth year in a row (see figure 1).[2] Sustained investor interest in the US economy is likely the result of three factors. First, investors have an overwhelmingly positive outlook for the American economy this year (see figure 2 on page 4). Second, the enduring attractiveness of the American market in terms of both its size and its transparent and relatively efficient legal and regulatory environment continue to make it a highly attractive investment location. And third, it is possible that the "buy American" and "make in America" policy commitments from the new Trump administration are motivating investors to gain a toehold in the US market with the aim of being perceived as a local rather than a foreign player.

Figure 1
2017 A.T. Kearney FDI Confidence Index®

Ranking 2015	2016	**2017**			Score
1	1	**1**	United States		2.03
5	4	**2**	Germany	+	1.86
2	2	**3**	China	–	1.83
3	5	**4**	United Kingdom	+	1.80
4	3	**5**	Canada	–	1.78
7	6	**6**	Japan		1.72
8	8	**7**	France	+	1.71
11	9	**8**	India	+	1.68
10	7	**9**	Australia	–	1.67
15	10	**10**	Singapore		1.61
17	13	**11**	Spain	+	1.60
14	11	**12**	Switzerland	–	1.58
12	16	**13**	Italy	+	1.56
13	14	**14**	Netherlands		1.55
18	22	**15**	Sweden	+	1.53
6	12	**16**	Brazil	–	1.52
9	18	**17**	Mexico	+	1.51
16	17	**18**	South Korea	–	1.50
–	21	**19**	Thailand	+	1.48
–	23	**20**	Ireland	+	1.46
–	–	**21**	United Arab Emirates	+	1.46
19	19	**22**	Belgium	–	1.44
–	–	**23**	New Zealand	+	1.44
21	24	**24**	Austria		1.43
–	–	**25**	South Africa	+	1.42

Score axis: 0.00 0.50 1.00 1.50 2.00 2.50

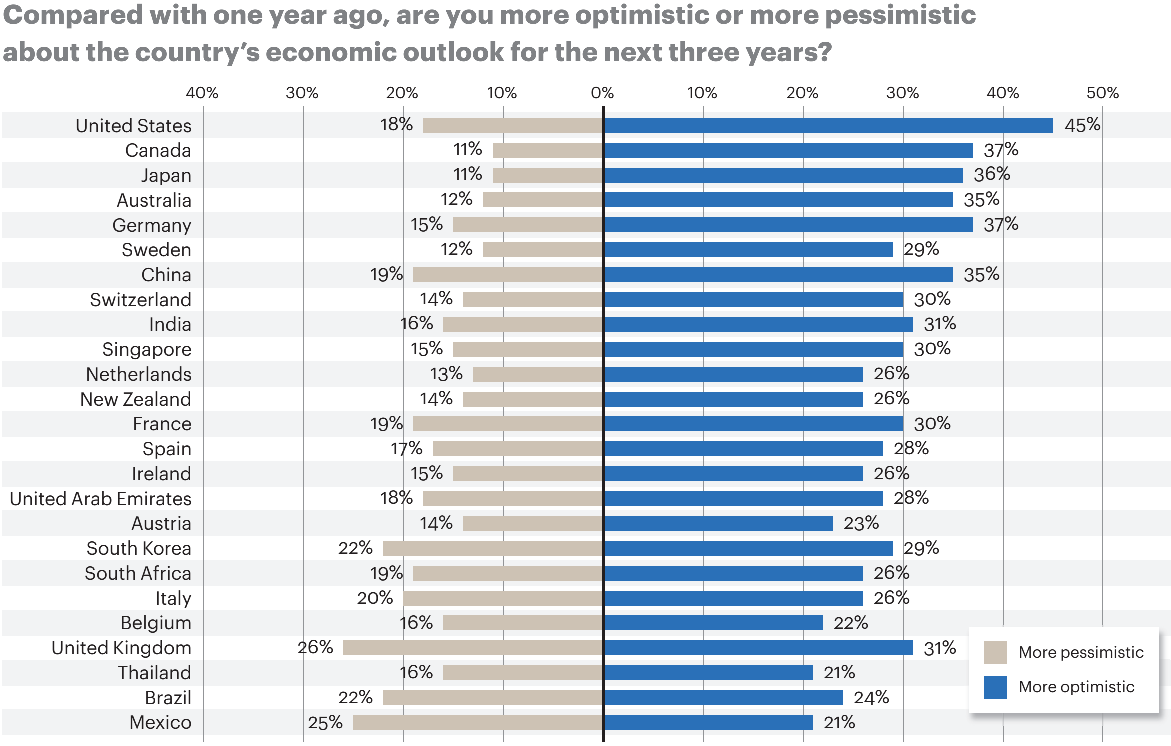
Low confidence ↔ High confidence

■ Maintained ranking + Moved up – Moved down

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.
Source: 2017 A.T. Kearney Foreign Direct Investment Confidence Index

[2] For information on the methodology and history of the FDI Confidence Index, see "About the Study" on page 35.

Figure 2
Optimism is rising for large developed markets, particularly outside of Europe



Note: Countries are listed in descending order of the net score (more optimistic to more pessimistic).
Source: 2017 A.T. Kearney Foreign Direct Investment Confidence Index

Germany rises two spots to claim second place in the FDI Confidence Index, its highest ranking in the history of the Index. After holding the number two position for four consecutive years, China falls to third place in the Index this year. This happened despite investors' outlook for the Chinese economy making a significant recovery, rising from a net assessment of –4 percent last year to +16 percent this year (see figure 2). The top five slots on the Index are rounded out by the United Kingdom in fourth place and Canada in fifth. These are the same five markets that held the top five spots last year, demonstrating the consistent appeal of these economies to foreign investors.

Below the top five spots, though, there are some significant changes. As in the past two years, investors display a notable preference for developed markets as investment destinations. This is likely in part because of their expectations for continued improvement in economic performance in these markets. For instance, the US economy is the one for which investors have the most optimism over the next three years, followed by Canada and Japan (see figure 2). Some European developed markets are also near the top of the list, but investors are less bullish about the UK economy over the next three years. And the overall performance of developed markets is somewhat weaker on the Index this year. After claiming 80 percent of the 25 spots in 2016, developed markets account for only 72 percent of this year's Index. While still dominant as investment destinations, this year marks a reversal of a five-year trend in which developed markets' share in the Index rose each year.

Emerging markets account for 28 percent of the positions this year, rebounding from a historical low of 20 percent of the Index last year. This could signal a nascent trend of global investors increasing their risk tolerance and eyeing emerging markets for growth opportunities. The top two emerging market performers on the Index are China and India—both in the top 10 this year—and these are also the two emerging markets about which investors are most optimistic on economic prospects compared with a year ago. Investors are more mixed on the economic outlooks of other emerging markets, which could mean that weaker economies are seen as either opportunities in terms of the price of making investments now or long-term rather than short-term growth opportunities, or both.

Overall, **this year's FDI Confidence Index scores indicate greater diversity** in FDI targets than last year.

Another notable characteristic of this year's Index is the shifting fortunes of European markets. As was the case last year, the only European countries in the top 25 are developed markets. However, European markets account for most of the developed markets that fell off the Index this year. And it appears that investors are planning to shift some of their operations within Europe—possibly because of Brexit. Such calculations could have contributed to Germany's rise to second place this year, as well as Sweden making the largest positive gain in rank (+7) on the 2017 FDI Confidence Index. The next two largest gainers in terms of rank are Italy (+3) and Ireland (+3), suggesting these may be other Brexit winners in terms of attracting FDI. However, the United Kingdom also fared well, rising one spot, which could indicate that businesses that are currently only in continental Europe may be seeking a foothold in the UK market as well. On the other hand, Belgium suffered the second-largest drop in rankings this year (–3), and Switzerland also fell one spot.

Other countries also experience declines in this year's Index. The largest drop in rank was Brazil (–4), continuing its two-year slide from 6th in 2015 to 16th in 2017. After Belgium, the next two largest drops were Canada (–2) and Australia (–2). The countries that were on the Index last year but do not appear this year are Denmark, Norway, and Taiwan.

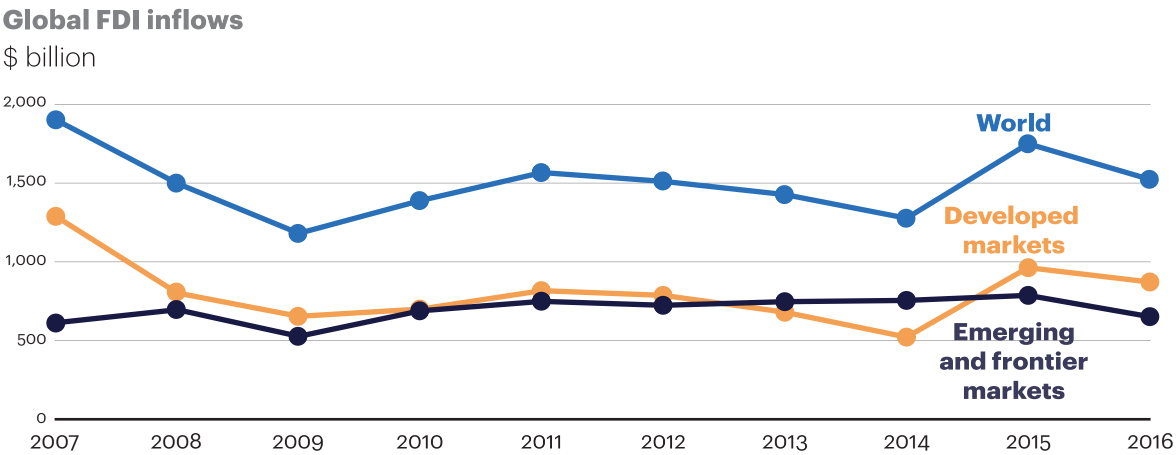
Newcomers to the 2017 FDI Confidence Index are diverse: the UAE, New Zealand, and South Africa. This marks New Zealand's first appearance on the Index, while the UAE and South Africa are returning after a two-year absence. It is also the first time since 2014 that an African or Middle Eastern country has appeared among the top 25. Along with a slight shift toward investing in emerging markets overall, the variety of newcomers this year could signal a desire by investors to diversify their FDI holdings more in the coming years.

Overall, this year's Index scores indicate greater diversity in FDI targets than last year. While the average score reached a multiyear low of only 1.56 in 2016, it rebounded to 1.61 this year. In addition, the gap between the top-ranked United States and the second-ranked country narrowed slightly this year—as did the gap between scores of the top-ranked United States and the country ranked 25th on the Index. The higher average score and the tighter clustering of scores on the Index both point to global investors seeing stronger FDI prospects in a wider variety of markets than last year.

FDI Flows Fell in 2016, But Are on an Upward Trajectory

In the 2016 FDI Confidence Index, we explored whether 2015 marked the beginning of a rebound in the global flow of FDI after several years of declining volumes. It now appears that was not the case. According to preliminary estimates from the UN Conference on Trade and Development (UNCTAD), the global flow of FDI fell to $1.5 trillion in 2016—a 13 percent drop relative to the previous year, with a more dramatic fall in the flow to emerging and frontier markets than to developed markets (see figure 3).[3]

Figure 3
Global FDI fell in 2016 after a dramatic rise in 2015



Note: Figures for 2016 are preliminary estimates.
Sources: UN Conference on Trade and Development; A.T. Kearney analysis

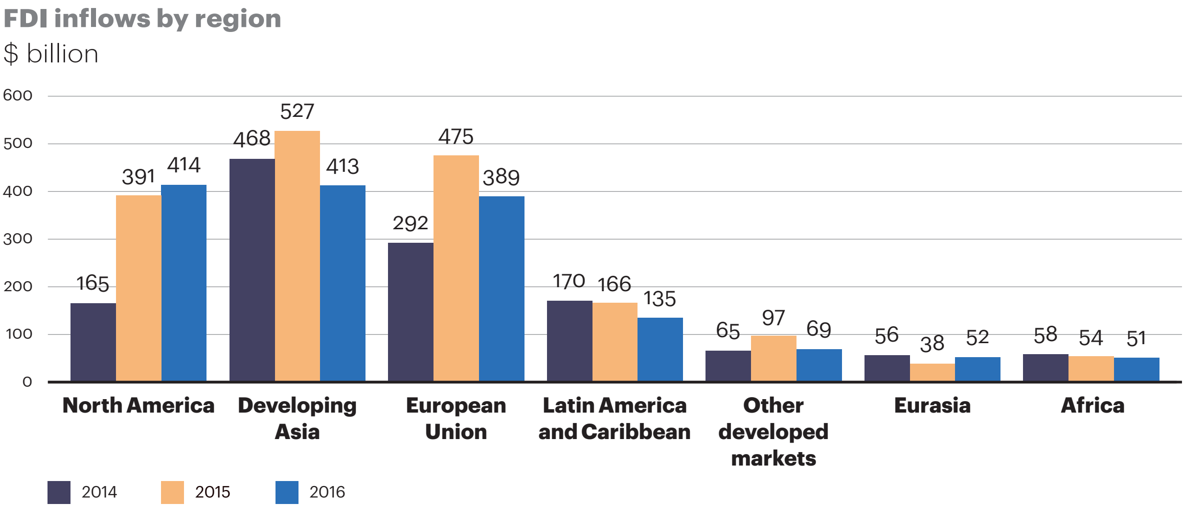
Investors told us both last year and this year that they plan to continue increasing FDI in the near to medium term. While at first glance it may seem that the UNCTAD estimates contradict these findings, the reality is more complicated. First, 2015 flows were likely a significant outlier because a small number of large deals drove the results that year, especially tax inversion deals between the United States and Europe. Second, UNCTAD's preliminary data notably shows that flows of FDI in 2016 were significantly above 2014 levels. Excluding the anomalous 2015 data, an upward trend in the global flow is evident in recent years. And in fact, UNCTAD forecasts a 10 percent increase in FDI flows in 2017.

Where those FDI flows are going shifted somewhat in 2016. As with 2015, UNCTAD estimates that developed markets again attracted more FDI than did emerging and frontier markets. This supports the findings of our 2016 FDI Confidence Index, in which developed markets dominated the top 25 to a greater degree than they ever had in the past. North America's FDI inflows increased substantially in 2016, reflecting the #1 rank of the United States and the #3 rank of Canada on last year's Index. In fact, North America accounted for the greatest share of global FDI inflow in 2016, while the share for Europe fell (see figure 4 on page 7). The fall in FDI inflows to Europe is somewhat surprising given that Western European countries accounted for over half of the top 25 markets on the 2016 Index. However, this could be a result of the shock

[3] The UNCTAD estimates on the 2016 flow of FDI will be revised when the final data is released in June 2017.

Figure 4

North America, Asia, and Europe are the top destinations for global FDI



Notes: These regional groupings are the only ones for which the UN Conference on Trade and Development provided data in their 2016 estimate release. Figures for 2016 are preliminary estimates.

Sources: UN Conference on Trade and Development; A.T. Kearney analysis

of Brexit reducing the FDI inflow in the latter half of the year. Alternatively, it could be that while investors are still planning on making investments in Europe in the coming years, those investments simply did not materialize in 2016. Or it may be that with so much global investor interest in Europe, there were not enough FDI targets to go around.

Among emerging and frontier markets, developing Asia still far surpasses other regions in terms of attracting FDI. This tracks with the fact that China and India are the only two emerging markets to rank in the top 10 on the FDI Confidence Index in 2016 and 2017. UNCTAD estimates that Latin America remains the emerging market region with the next-largest inflow of FDI, followed by Eurasia and Africa.

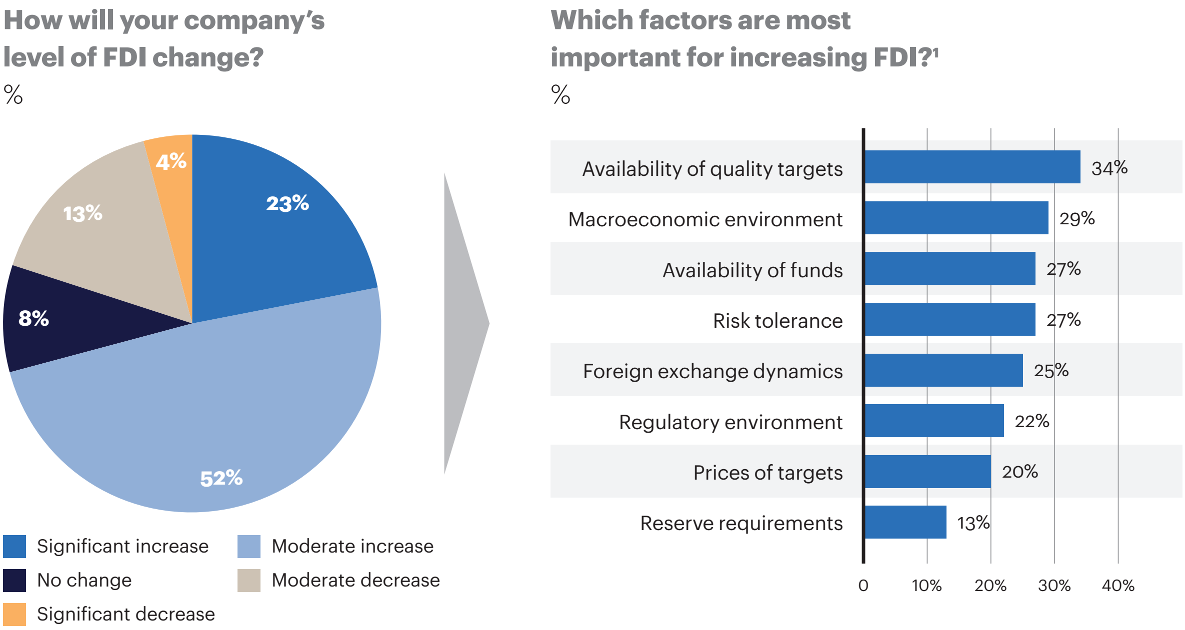
Among emerging and frontier markets, developing **Asia still far surpasses other regions** in terms of attracting FDI.

While UNCTAD forecasts relatively strong growth for FDI in 2017—particularly to emerging and frontier markets—it stresses that "uncertainties abound." In particular, UNCTAD says political risks could undermine FDI in the coming year. This echoes the Global Business Policy Council's analysis in the Global Economic Outlook 2017–2021 that political, policy, and regulatory risks are increasingly acting as an all-too-visible hand in shaping economic outcomes. However, global investors tell us they plan to continue increasing FDI in the coming years—perhaps despite, or even in reaction to, heightened political risks.

Investors See FDI as Essential in the Current Global Environment

An overwhelming 75 percent of investors plan to increase their FDI in the coming three years, up from an already high 71 percent who said the same last year (see figure 5). Although this intention to increase FDI is consistent across both regions and sectors, investors based in Asia (79 percent) and those in the IT sector (83 percent) are particularly keen to boost their level of FDI.[4]

Figure 5
Most investors plan to increase FDI, primarily driven by the availability of high-quality targets



[1] Percentages do not add up to 100 because respondents could select two choices.
Source: 2017 A.T. Kearney Foreign Direct Investment Confidence Index

The availability of quality investment targets is the most often cited reason to increase investments, followed by the macroeconomic environment. These two factors could be related, as slow economic growth in recent years may have made some high-quality targets vulnerable to takeovers because of weaker performance, while lower FDI levels since the 2008 global financial crisis may have created a backlog of potential investments. Investors also point to an availability of funds motivating their decision to increase FDI, which could signal a forthcoming rebound in business more generally. It is also notable that risk tolerance is a primary factor driving FDI in the coming years, as this relates to the incipient shift back to emerging markets as investment destinations as well as an overall diversification in the markets where companies plan to invest.

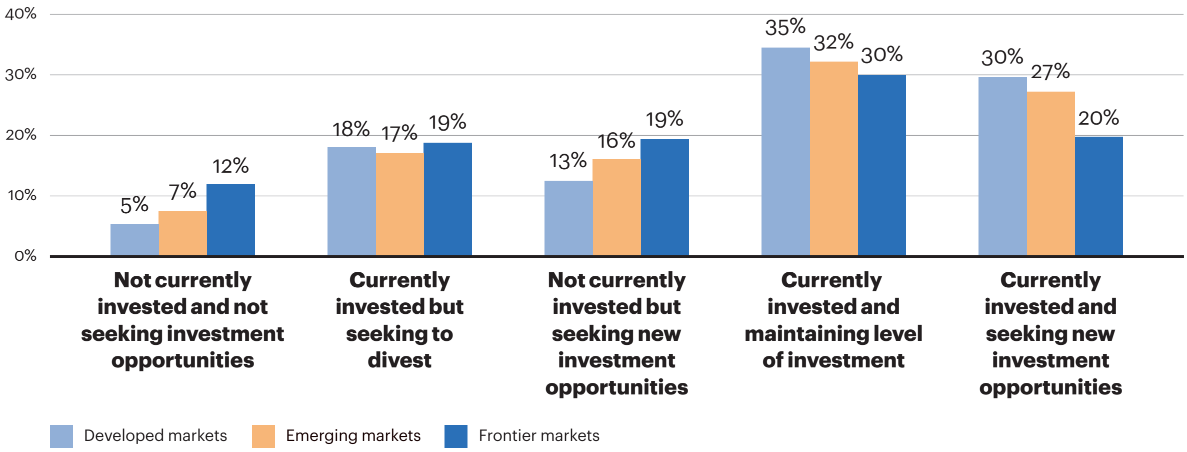
[4] The executives we surveyed work at three types of firms: industrial firms (primary goods, aerospace and defense, infrastructure and construction, telecommunications and utilities, heavy industry, and light industry), service-sector firms (transportation, healthcare and pharmaceuticals, wholesale and retail, financial services, and nonfinancial services—excluding IT), and IT firms.

Consistent with previous years, investors are still most interested in developed and emerging markets, with 78 and 75 percent of investors respectively planning to maintain or seek new investments in these types of markets (see figure 6). Frontier markets remain somewhat less popular, with only 69 percent of investors planning to maintain or seek new investments there. While almost one in five investors are seeking to divest from frontier markets, the same proportion are seeking new opportunities in these markets. This suggests there will likely continue to be considerable churn as some companies land on winning strategies while others struggle to succeed in these more challenging consumer and regulatory environments. Among investors that are already in or are seeking investments in each type of market, selling into the market is the most popular form of investment across asset classes. However, investors prefer producing in emerging markets (48 percent) and—somewhat surprisingly—sourcing from developed markets (45 percent).

Figure 6

Emerging and developed markets still attract the most attention, but some investors are eyeing frontier markets

How would you characterize your company's investments in each type of market?



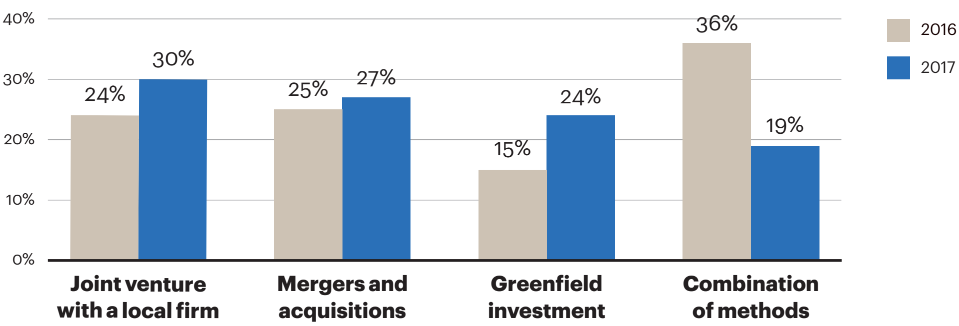
Source: 2017 A.T. Kearney Foreign Direct Investment Confidence Index

One area in which there is significant change from last year's Index is the mode by which companies engage in FDI. While a combination of FDI modes was the most popular among investors last year, there is a marked shift toward focusing on only one type of FDI model this year (see figure 7 on page 10). Joint ventures (JVs) are now the most preferred mode of FDI, followed by mergers and acquisitions (M&As). There are some regional variations though, with investors based in Asia preferring M&As, Europeans favoring JVs, and investors based in the Americas preferring greenfield investments. The overall emphasis on JVs and M&As makes sense in the current geopolitical environment. With nationalism and protectionism on the rise, JVs are likely to be viewed most favorably by governments that are keen on boosting domestic production and employment. While M&As imply greater ownership and control by a foreign company, the resulting enterprise could retain its historical branding and thus could continue to seem more local than foreign. Although greenfield FDI would likely create the most jobs in the target country,

Figure 7

Investors are less likely to pursue a combination of FDI methods this year, turning in particular to joint ventures

By which mode does your company typically engage in FDI?



Source: 2017 A.T. Kearney Foreign Direct Investment Confidence Index

Figure 8

Political risk is in the spotlight with investors focusing on governance issues

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

%

Rank

2016	**2017**		
4	**1**	General security environment	15%
5	**2**	Efficiency of legal and regulatory processes	14%
7	**3**	Tax rates and ease of tax payment	14%
6	**4**	Technological and innovation capabilities	13%
3	**5**	Transparency of government regulations and lack of corruption	12%
1	**6**	Domestic market size	12%
–	**7**	Domestic economic performance	12%
9	**8**	Ease of moving capital into and out of country	12%
14	**9**	Strength of investor and property rights	12%
11	**10**	Government incentives for investors	11%
13	**11**	Country's participation in trade agreements	11%
2	**12**	Cost of labor	9%
10	**13**	Availability of financial capital in domestic market	9%
16	**14**	Availability of land or real estate	7%
8	**15**	Talent and skill level of labor pool	7%
12	**16**	Research and development capabilities	6%
15	**17**	Availability of raw materials and other inputs	6%
17	**18**	Quality of transportation infrastructure	6%
19	**19**	Quality of telecommunications infrastructure	6%
18	**20**	Quality of electricity infrastructure	4%

Market asset and infrastructure factors Governance and regulatory factors

Note: Percentages do not add up to 100 because respondents could select two choices.
Source: 2017 A.T. Kearney Foreign Direct Investment Confidence Index

it is also likely to be viewed as the most foreign of these options and thus may not be as palatable in markets in which nationalist and protectionist sentiments are rising.

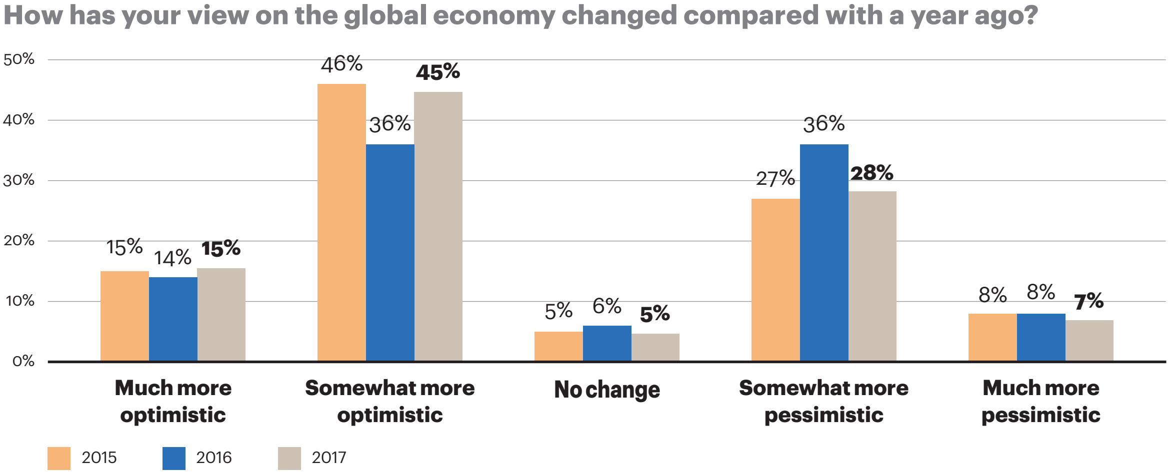
More broadly, the all-too-visible hand of political risk is on full display in terms of the factors that investors evaluate when determining where to make investments. Governance and regulatory issues account for the top three factors—as well as seven of the top 10—in terms of factors that determine which markets appeal to investors (see figure 8 on page 10). This contrasts starkly with last year's results, in which market asset and infrastructure factors held the top two spots and half of the top 10. Investors' heightened attention to governance and regulatory factors helps to explain why developed markets continue to perform well on the FDI Confidence Index, as these markets tend to have the most stable security environments and the most transparent regulatory and taxation environments. However, this focus on governance also suggests investors will be closely monitoring developments in the United States and Europe for signs of populism and protectionism creating a deterioration in FDI environments (see sidebar: Businesses' Role in the Social Compact on page 12).

Given the global trend toward protectionism—in rhetoric if not yet in actual policy—it is interesting that 75 percent of investors believe FDI will drive profitability and competitiveness in the next three years. This overwhelming emphasis on the importance of FDI tracks with what investors told us last year. It is also indicative of the apparent strategy of companies to continue to globalize even in a low-trade and increasingly protectionist environment. Investors may actually see FDI as a safeguard against nationalist and protectionist policies because it gives them a presence in local markets and thus makes them more immune to increasing populist sentiments.

Investors are Bullish on the Macroeconomic Outlook

Investors are more bullish on the global economy this year, with 60 percent more optimistic about the outlook than they were last year (see figure 9). This marks a return to a positive global economic outlook after the notably bearish sentiment in our 2016 survey, when almost half of

Figure 9
Investors are more bullish on the global economy than they were in 2016



Source: A.T. Kearney Foreign Direct Investment Confidence Index (2015, 2016, 2017)

Businesses' Role in the Social Compact

The global operating environment is in a period of heightened volatility. This is most evident in the United States and Europe, where voters have been rejecting establishment politicians and, by extension, the liberal internationalist consensus that has dominated policymaking in these markets since the end of World War II. At the same time, a variety of large emerging markets are playing a more active role on the world stage, bringing their own ideologies and policy preferences to new markets. And around the world, governments are more actively managing their domestic economies. Investors are clearly paying attention to these developments as they see an increase in geopolitical tensions as the most likely wild card this year and place much more emphasis on governance and regulatory factors as considerations for where to invest than they have in the recent past.

Considering these trends, we wondered how global investors view the business community's role in governing the global economy. Do they see themselves as passive observers of government policymaking, simply along for the ride? Or do they view themselves as active participants, shaping the policy environment for the good of their own business and the broader society?

The anecdotal evidence seems to point to the latter. In recent years, we have noticed an uptick in the willingness of some business executives to speak out about policies under consideration and those that they think should be under consideration. These include General Electric CEO Jeff Immelt, former CEO and Chairman of Microsoft Bill Gates, and Cisco UK CEO Phil Smith, among others. Our survey results confirm this anecdotal evidence. Investors told us they overwhelmingly believe there is a strong and positive role for business leaders and businesses in the social compact—the relationship between government, business, and society that promotes mutual benefit for all.

Investors believe that business leaders should play an active role in shaping government policy. While 78 percent of investors think business leaders should publicly advocate for policy positions that would improve economic and social outcomes, even more of them—81 percent—think they should work directly with government leaders on developing these policies.

But it does not stop there. Investors also believe businesses have significant contributions to make to economic and social outcomes. The strongest level of agreement in this section of our survey—with more than four out of five investors agreeing—is on two issues. First, businesses have a role to play in advancing economic growth through capital investments, R&D spending, and other investments. Second, they also play a role in improving socioeconomic well-being and reducing inequality through paying employees adequate wages and providing career advancement opportunities. In addition, 79 percent of investors believe businesses have a role to play in funding government investment and social services through paying the appropriate taxes to national governments (that is, not engaging in base erosion and profit-shifting tax-avoidance strategies).

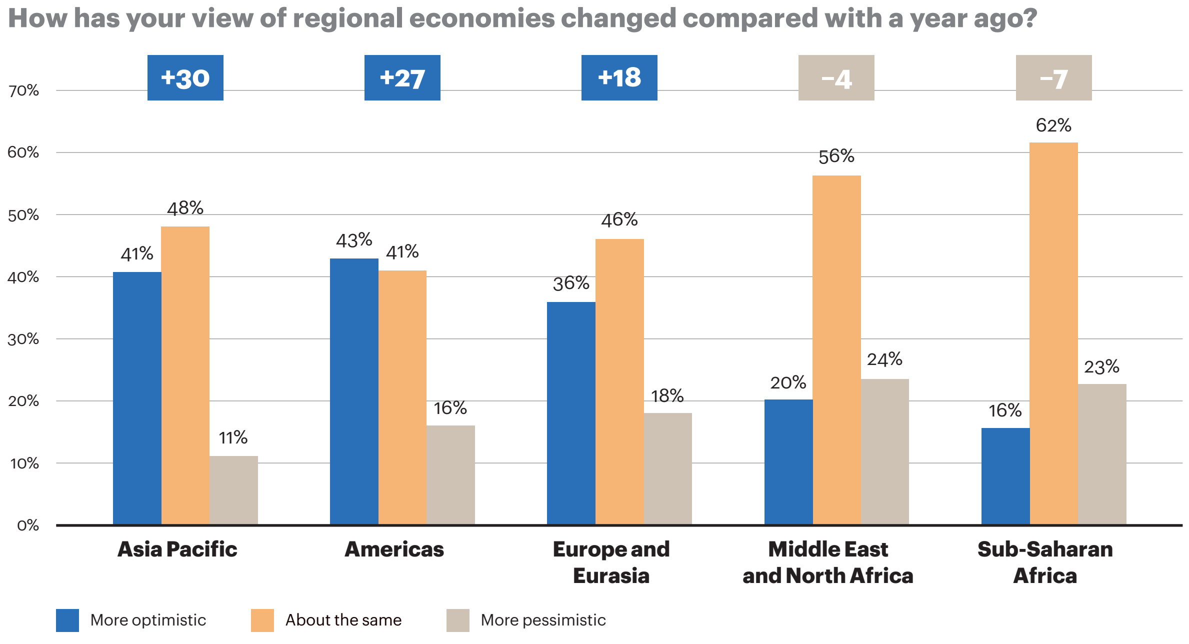
On a somewhat more somber note given the more activist role of governments around the world, investors do not have much faith in the ability of governments to deliver on their promises. About three-quarters of investors believe businesses are more efficient at achieving positive outcomes than governments are. This conforms with results from the Edelman Trust Barometer, which shows that governments are the least-trusted major institution in the world and that public levels of trust in governments continue to decline. While this presents a challenge for governments, it also presents an opportunity for businesses to engage on these issues, which is perhaps why so many investors believe they should do so.

investors were more pessimistic than the year before. The positive global economic outlook is likely driven in large part by the expected growth acceleration in the US economy as well as a strong consensus that the Chinese economy will grow at robust levels this year. In addition, the IMF and others predict emerging markets will enjoy improved economic prospects in the years ahead.

While this year's more bullish economic outlook is consistent with investors globally, investors at firms based in Asia are by far the most bullish group. An overwhelming 85 percent of Asian investors are more optimistic about the global economy this year than they were last year, compared with only 58 percent of investors in the Americas and 53 percent of European investors. This could be driven by trends within the region, including investors' reduced fears about the risks of a hard landing for the Chinese economy as well as India emerging as the world's fastest-growing major economy.

In fact, global investors are much more optimistic about the economic outlook for the Asia Pacific this year. It is the region with the highest net optimism compared with last year (see figure 10). The region about which global investors are second-most bullish is the Americas. As previously discussed, this is likely driven in large part by their optimistic outlook for the United States and Canada. Investors are also somewhat more optimistic about the economic outlook in Europe and Eurasia this year, but they are more pessimistic about the economic outlook for the Middle East and Africa.

Figure 10
Investors are much more optimistic about Asia Pacific and the Americas this year



Note: Regions are listed in descending order of the net score (more optimistic to more pessimistic). The numbers above each regional dataset are the net scores.

Source: 2017 A.T. Kearney Foreign Direct Investment Confidence Index

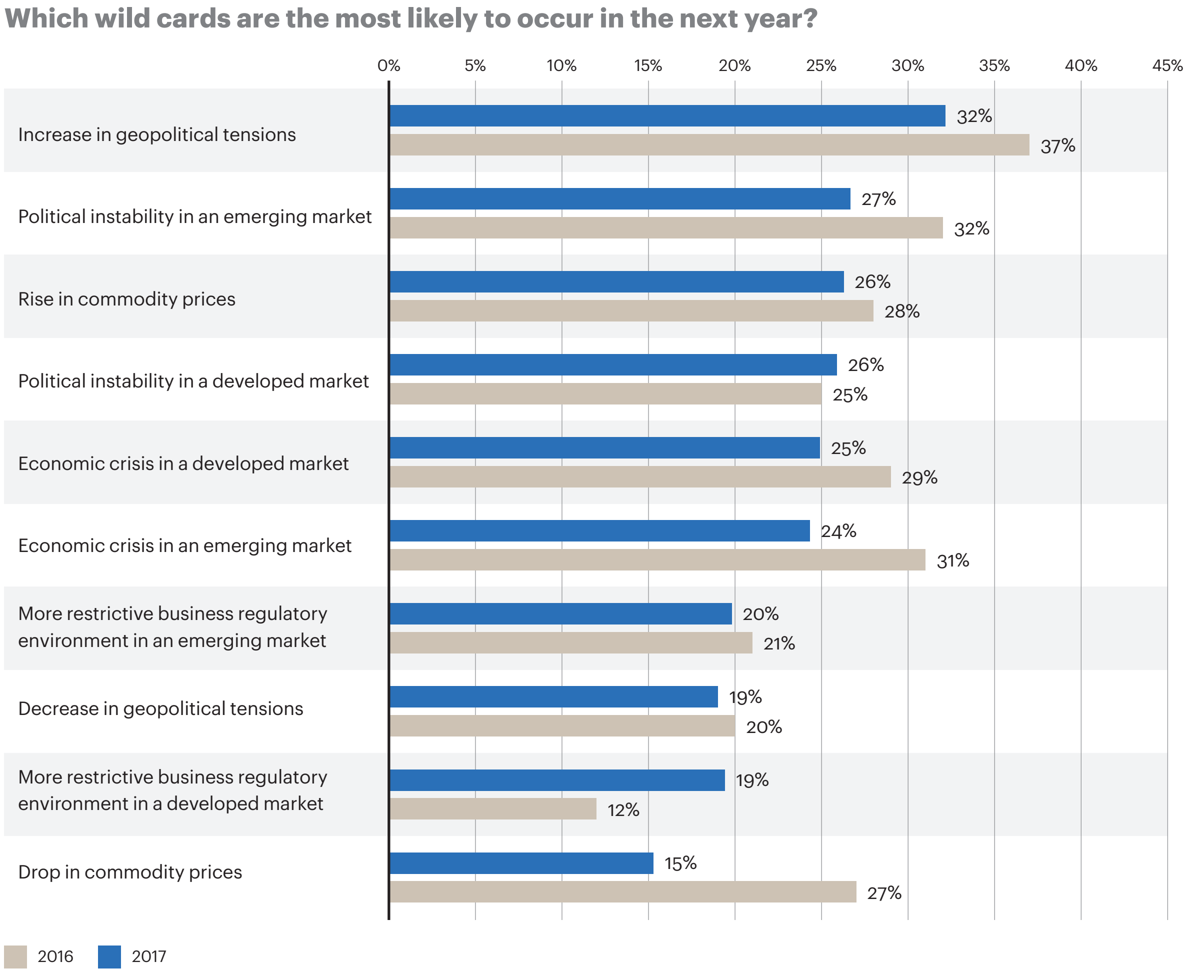
Geopolitics Tops Investors' Wild Card Risks

Geopolitical tensions top investors' list of likely wild-card events this year (see figure 11). This is the third year in a row for which investors have determined that an increase in geopolitical tensions is the most likely wild-card event, although only 32 percent see an increase in geopolitical tensions as likely this year, compared with 37 percent last year. European investors are particularly worried about geopolitics. This is hardly surprising given that Europe is involved in the ongoing geopolitical tensions between Russia on the one hand and the United States and European Union on the other. Europe is also particularly affected by geopolitical conflicts in the Middle East and North Africa in terms of the flow of refugees.

The wild-card event about which investors' concern grew the most this year is a more restrictive business regulatory environment in a developed market. Almost one in five global investors perceive restrictive regulations in a developed market as a likely wild card in 2017, a significant

Figure 11

Geopolitical tensions top the list of wild cards again, but developed market regulations make the biggest jump



Note: Numbers do not add up to 100 because respondents could select up to three choices.
Source: A.T. Kearney Foreign Direct Investment Confidence Index (2016, 2017)

increase from the 12 percent who were concerned about this in the past two years. Investors' concern is likely driven by the trend of increasing populism, nationalism, and protectionism in a variety of developed markets around the world. If the rising populist rhetoric translates into dramatic policy and regulatory changes, then global investors could face a more difficult operating environment in these markets.

Another notable shift from last year's results is investors' assessment of likely commodity price swings. In 2016, investors were evenly split on the direction of a potential commodity price shock. But there is clear agreement among investors this year that a rise in commodity prices is much more likely (26 percent) than a drop in prices (15 percent). This likely reflects the market consensus that the commodity price cycle has bottomed out and that a gradual rise in prices is likely this year as the global economy picks up steam and thus demand for commodities grows at a faster rate than in previous years.

Deep Dive into India's Investment Environment

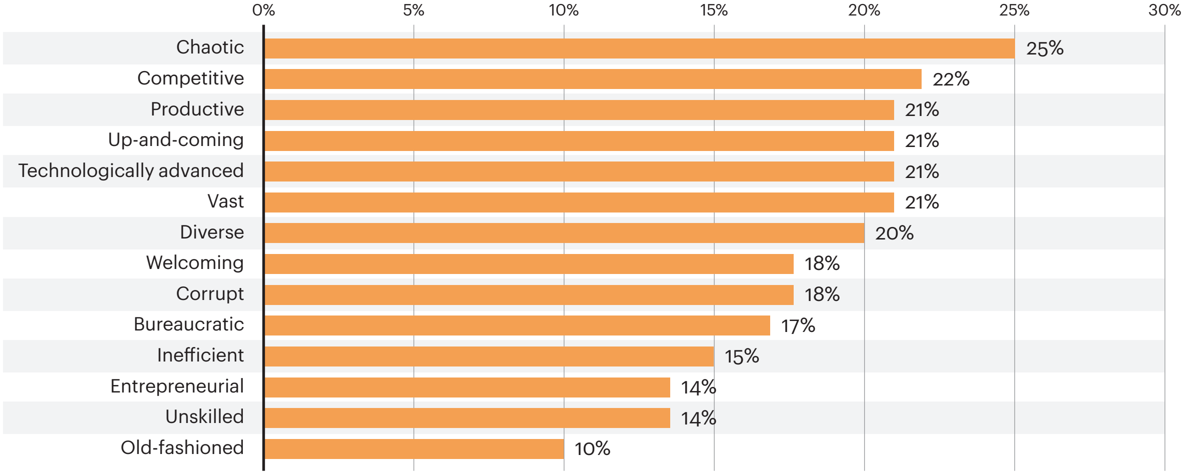
This year, our survey explored India's FDI environment in detail. Such an analysis is in line with the Global Business Policy Council's previous work on characterizing different markets' FDI environments and identifying opportunities for how governments can attract more foreign investment. India was a clear choice for a deep dive in 2017 based on its steady rise in the FDI Confidence Index rankings over the past two years, as well as the reform efforts by the current government to improve the country's investment environment. What we found is that investors have a broadly positive impression of India's FDI environment and plan to increase investments there over the near to medium term. However, areas for significant improvement exist as well.

The brand of India is overall a very positive one. Investors see it as a vast and diverse up-and-coming market (see figure 12). Importantly for the 21st-century global economy, investors also

Figure 12

Despite being seen as chaotic, India is viewed in an overall positive light

Which qualities and characteristics come to mind when you think about India as a brand?



Note: Numbers do not add up to 100 because respondents could select up to three choices.
Source: 2017 A.T. Kearney Foreign Direct Investment Confidence Index

tend to see India as technologically advanced. These characteristics likely contribute to global investors' view that India is a competitive and productive economy. However, the primary characteristic investors point to when describing India is chaotic. This is understandable given that India is the world's most populous democracy and has 23 official languages, four major climate zones, and a variety of religious and cultural influences.

Investors have a **broadly positive impression of India's FDI environment** and plan to increase investments there over the near to medium term.

Foreign investors are most attracted to India's cost of labor (see figure 13). India has the world's largest population, and 47 percent of its people are 24 years old or younger, ensuring a large and relatively low-cost labor force for many years. This is a timely advantage given that rising labor costs in China are pushing some foreign investors to seek alternative, lower-cost manufacturing centers. Relatedly, many investors also point to the skill level of the Indian labor force as a positive characteristic driving FDI. The second-most attractive characteristic foreign investors see in India is its vast domestic market, which is hardly surprising given that India is the world's

Figure 13

Investors view the low cost of labor as the best reason to invest in India, but they are deterred by corruption

On which of the following factors does India perform best in terms of its FDI environment?

Rank	Factor	Percent
1	Cost of labor	32%
2	Domestic market size	24%
3	Talent and skill level of labor pool	17%
4	Technological and innovation capabilities	17%
5	Domestic economic performance	14%

On which of the following factors does India perform worst in terms of its FDI environment?

Rank	Factor	Percent
1	Regulatory transparency and corruption	22%
2	General security environment	18%
3	Quality of transportation infrastructure	18%
4	Quality of electricity infrastructure	17%
5	Efficiency of legal and regulatory processes	17%

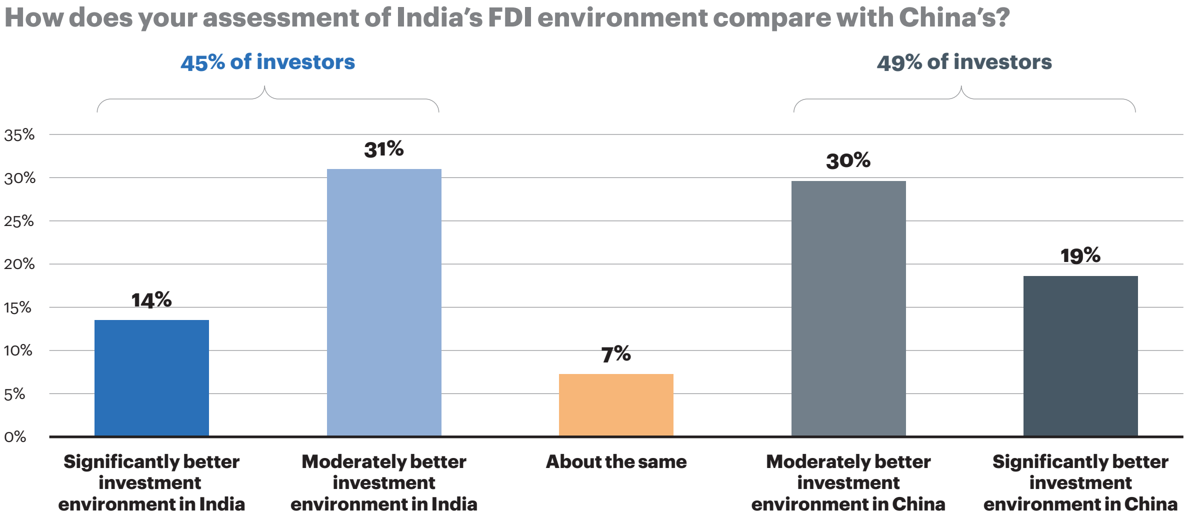
Note: The top five of 20 factors are shown here. Numbers do not add up to 100 because respondents could select up to three choices.
Source: 2017 A.T. Kearney Foreign Direct Investment Confidence Index

third-largest economy (at purchasing power parity). This makes for an extensive market for consumer goods as well as business-to-business sales. Finally, some investors point to India's economic performance as a selling point. It is forecast to be the fastest-growing major economy in the world in the coming years, which should provide a variety of investment opportunities.

On the other hand, India's opaque regulatory environment and prevalence of corruption is the primary deterrent to foreign investment (see figure 13 on page 16). Relatedly, some investors also point to inefficiencies in India's legal and regulatory processes as a negative aspect of its investment environment. The government has been pursuing an anticorruption drive in recent years, so these governance factors may improve over time. The security environment is another factor that may give some investors pause, given continual tensions with Pakistan and several ongoing domestic insurgencies. Finally, investors also highlight the quality of India's transportation and electricity infrastructure as among the worst aspects of its investment environment. Notably, all of these negative factors are within the government's direct power to improve. This bodes well for the future of India's investment environment should the government continue to try to tackle these issues through its reform agenda.

In fact, 65 percent of foreign investors believe India's investment environment will improve in the medium term. One potential improvement on the near-term horizon is the implementation of the national goods and services tax (GST) reform, which will create a common internal market in India. Over half of investors said successful GST implementation would cause them to significantly or moderately increase their investments in India. More broadly, almost 70 percent plan to maintain or increase their FDI in India in the coming years. Given its large size, selling into the Indian market is the most popular type of investment (87 percent of investors) followed by producing in India (79 percent of investors). However, the jury is out on whether the current investment environment is better in India or in China. About half of investors think China's investment environment is better, while 45 percent think India has a better environment for FDI (see figure 14).

Figure 14
Investors are split on whether the investment environment is better in India or China



Source: 2017 A.T. Kearney Foreign Direct Investment Confidence Index

Regional Findings and Context

Americas

Across the Americas, political and economic dynamics have greatly influenced recent FDI flows and the rankings on this year's FDI Confidence Index. There was modest growth of 6 percent in FDI flows to North America, which reached an estimated $414 billion in 2016. It is thus no surprise that the United States remains in the top spot on this year's Index while Canada claims 5th place. However, FDI flows to Latin America decreased significantly, falling 19 percent to $135 billion in 2016. This was likely in part because of weak global commodity prices. Brazil and Mexico represent Latin America on the Index. Although they appear next to each other in the rankings (at 16th and 17th respectively), their fortunes have diverged somewhat, with Brazil falling four spots and Mexico gaining one spot.

United States

The United States tops the FDI Confidence Index for the fifth year in a row. This is likely because of the sheer size of the US market and the overwhelmingly positive investor outlook for the American economy this year, with 45 percent of investors more optimistic than they were last year. The country's GDP growth is estimated to have been a relatively low 1.6 percent in 2016 but is expected to strengthen to 2.3 and 2.5 percent in 2017 and 2018 respectively.

Investors will watch closely as the Trump administration follows through on promises to renegotiate NAFTA and forge new bilateral free trade agreements. UNCTAD warns that such policies may threaten to stem investment in the near term. But it is possible that President Trump's "buy American" and "make American" rhetoric is motivating investors to gain a toehold in the US market as foreign companies may see FDI into the United States as the best way to ensure access to the large and growing US market. President Trump may even seek to boost FDI to reach his explicit goals to promote domestic production and jobs. In addition, President Trump's stated plans to increase infrastructure spending and lower corporate tax rates would likely keep FDI inflows strong in the coming years.

With FDI inflows increasing 11 percent year on year to an estimated $385 billion in 2016, the United States remains by far the largest recipient of FDI in the world. It is worth noting that the United States is also by far the largest source of FDI worldwide, with more than $300 billion in outflows in 2015. The rise in FDI to the United States last year was largely supported by several megadeal cross-border M&As. Among the noteworthy cross-border deals are the $38 billion acquisition by Israel's Teva Pharmaceutical Industries of the generic drugs unit of Allergan and Ireland-based Shire's $34.7 billion purchase of Baxalta, a biopharmaceutical company.

The greatest sources of cumulative FDI stock into the United States through 2015 were large advanced economies, principally the United Kingdom ($569 billion), Japan ($414 billion), Canada ($342 billion), and Germany ($319 billion). Although China had only $21 billion in cumulative FDI stock in the United States as of 2015, it is rapidly increasing its investments in the United States. In the first half of 2016, Chinese firms reportedly invested $16 billion in the US economy driven by strong M&A activity in technology, consumer goods, and services and capital-intensive greenfield projects in manufacturing and real estate. More broadly, manufacturing continues to be the primary sector recipient of FDI in the United States, accounting for roughly a third of the inflow.

Canada

Canada remains in the top five but drops two spots this year to 5th after being surpassed by European heavyweights Germany and the United Kingdom. The country ranks highest among respondents from the Americas (2nd) and scores well among investors in both the industry and services sectors (4th). FDI inflows to Canada fell from $43 billion in 2015 to an estimated $29 billion in 2016, largely because of declines in M&A deals and greenfield projects and lower reinvested earnings. About a quarter of Canadian FDI inflows are from equity investors that hold significant enough stakes in Canadian companies to influence management decisions.[5] The trade and transportation, manufacturing, mining, and oil and gas sectors also attract robust FDI.

Following relatively weak growth of 1.2 percent in 2016, the forecast for Canadian economic growth in 2017 is more positive at 1.9 percent. Indicators of a strengthening economy include a recovering job market, the increasing price of oil, and historic highs for the Toronto Stock Exchange. Investors also told us they are much more optimistic about Canada's economic outlook this year than they were last year—the second-highest level of optimism on a domestic economy after the United States. And the Canadian government is doing its part to maintain investor optimism. Canada's Finance Minister unveiled a $45 billion (C$60 billion) infrastructure stimulus plan in November 2016, and Prime Minister Justin Trudeau recently announced he plans to increase the threshold for government review of foreign takeovers to $766 million (C$1 billion) in 2017, two years earlier than anticipated.

The United States continues to be Canada's greatest source of FDI stock, increasing its investment position in Canada by 10.5 percent to $291 billion in 2015. Other countries that held significant FDI stock in Canada in 2015 include the Netherlands ($66.9 billion), Luxembourg ($45.6 billion), the United Kingdom ($25.7 billion), and Japan ($16.5 billion). The strong relationship with the United States is expected to continue for years to come, although there is some uncertainty surrounding the long-term implications of plans to pursue a renegotiation of NAFTA. Recent notable deals from US acquirers include Lowe's purchase of RONA, a construction and building retailer, for $2.2 billion, and McKesson's acquisition of Rexall Pharma Plus, also for $2.2 billion. In the tourism industry, Vail Resorts bought Whistler Blackcomb Holdings for $1.2 billion.

Brazil

Brazil falls four spots to 16th, bringing its two-year decline in the rankings to 10 spots. The country's economy contracted 3.5 percent in 2016, and the IMF projects minimal 0.2 percent growth in 2017. Investors tell us they remain relatively pessimistic about its economic outlook as well. Likely as a result of these macroeconomic woes, FDI flows to Brazil fell from $65 billion in 2015 to an estimated $50 billion in 2016.

Despite an overall slip in FDI inflows, there are some less risk-averse investors that see opportunities in Brazil even amid ongoing uncertainty. Politically, the impeachment of leftist former President Dilma Rousseff in August 2016 has paved the way for a more business-friendly successor, Michel Temer, who has moved forward with several reforms aimed at domestic economic recovery. For instance, he passed a law that limits future increases in government spending, has started to tackle pension reform, and plans to pass reforms to labor, tax, and education laws by 2018. Such reforms may help improve Brazil's investment environment, which would be welcome as the country currently ranks a low 123rd in the World Bank's *Doing Business*

[5] This corresponds with the "management of companies and enterprises" in the North American Industry Classification System.

2017. More immediately, the depreciation of the Brazilian real may also appeal to investors seeking to acquire assets in the country.

Long-term investors seem to remain interested in the Brazilian market, especially in the oil and gas sector. For example, Royal Dutch Shell is planning to bid on Brazil's deep-water oil exploration and production fields in 2018, as regulatory reform is liberalizing access in the sector. Relatedly, Petrobras has been selling off its assets to international investors such as Norway's Statoil, which injected $2.5 billion into the Brazilian economy in Brazil's largest cross-border transaction of 2016. Investor interest also extends to other sectors, including Wal-Mart's recently announced plans to spend $320 million upgrading its stores in Brazil over the next three years.

Long-term investors seem to remain interested in the Brazilian market, **especially in the oil and gas sector.**

Mexico

After experiencing the most pronounced drop in rank in 2016, Mexico turns the tables by improving one spot. Its GDP growth is expected to be 1.7 percent this year, the slowest rate of growth since 2013, but is projected to strengthen in subsequent years. FDI fell 20 percent from 2015 to an estimated $26 billion in 2016, and Banamex, a division of Citigroup, projects total FDI inflow to Mexico for 2017 of $25 billion. Investors seem to be aware of these forecasts as they are least optimistic about Mexico's economic outlook when compared with all countries in the Index (see figure 2 on page 4).

However, many investors seem to view Mexico as a favorable long-term bet. Mexico ranks especially well among investors in the industry sector. Some of Mexico's top FDI recipients include the glass industry, financial services, automobile manufacturing, and telecommunications. Mexico also ranks much higher at 9th place among investors in the Americas, which is not surprising given its strong economic ties to its northern neighbor. The United States is Mexico's largest source of FDI, with total stock in the country reaching $92.8 million in 2015. However, this relationship is under increasing pressure. US President Trump's plans to build a wall along the US–Mexico border, renegotiate NAFTA, and adopt more protectionist policies could reduce FDI flows from the United States to Mexico. Even more pointedly, President Trump has frequently criticized American companies for having, or planning to establish, operations in Mexico, and he is pursuing policies that will incentivize them to stay in the United States.

Mexican President Enrique Peña Nieto has advanced several political and economic reforms that aim to boost private investment (both domestic and foreign) in the economy, most notably opening the energy sector to private investment and increasing infrastructure investment. The government's efforts appear to be working. In September 2016, US-based Sempra Energy purchased Pemex's 50 percent stake in a pipeline joint venture for $1.1 billion. And the Canada Pension Plan Investment Board and the Ontario Teacher's Pension Plan jointly invested $1 billion in a minority stake in Autopista Arco Norte, a company that develops and operates infrastructure in Mexico, such as toll roads.

Europe

Europe is once again the region with the most countries on the FDI Confidence Index, although the number of European countries in the Index has been declining over the past two years. European heavyweights claim three of the top 10 spots, with Germany ranking 2nd, the United Kingdom in 4th place, and France at 7th. However, there is a high degree of volatility and uncertainty in the region stemming from Brexit, Italy's referendum and economic challenges, and a variety of other recent and upcoming elections in the region that have strong populist and protectionist candidates. Perhaps all of this uncertainty contributed to the overall decline in FDI flows to Europe to an estimated $385 billion in 2016. Going forward, it seems likely that European fortunes with respect to FDI will continue to be mixed, with some countries rising in the rankings while others fall.

Germany

Germany moves up two spots to 2nd place—the country's highest-ever position in the Index and the second year in a row for which it is the top-ranked European country. This is likely in part because German economic growth strengthened to 1.7 percent in 2016 and is expected to remain relatively strong at 1.5 percent in 2017 and 2018. Germany's high levels of productivity, a skilled labor force, first-class infrastructure, and a central location within Europe likely also contribute to its robust ranking.

Investor interest in Germany is strong across all three sectors in our survey, and the country is especially favored as the top destination for FDI among respondents from Europe. It is possible that Germany may be one of the big winners from the United Kingdom's vote to leave the European Union. More investment flowed into real estate in Germany than in the United Kingdom in the third quarter of 2016 for the first time in four years. In addition to a high FDI confidence rating in Europe, investment figures in Germany reflect a strong link to Chinese businesses. One estimate puts Chinese investment in Germany at a whopping $12.6 billion in 2016, making Germany the largest European recipient of Chinese investment.

Nearly one-fifth of the greenfield FDI projects announced in Germany between 2010 and 2015 were in information and communications technology and software, with business and financial services close behind at 15 percent. In the fintech space, US-based Diebold acquired Wincor Nixdorf for $1.8 billion to create the world's largest ATM and retail banking services company. Investor interest in the German automotive sector is also strong. In early 2016, the leading Canadian automotive supplier, Magna International, acquired Getrag, one of the largest independent producers of vehicle transmissions, for $1.9 billion.

United Kingdom

The United Kingdom rises one spot to 4th. UNCTAD estimates FDI inflows to the United Kingdom were $179 billion for 2016, second only to the United States. This is a strong result given the country's surprising Brexit vote in June 2016, which ignited fears that UK economic growth would decline and its investment attractiveness would wane. While these negative repercussions did not materialize in 2016, investors told us they are becoming more pessimistic about the UK's medium-term economic outlook. The IMF forecasts a decline in growth from 2.0 percent in 2016 to 1.5 percent in 2017.

While there has been anecdotal evidence that some companies—such as UBS, HSBC, Microsoft, and Goldman Sachs—are considering downsizing or eliminating their footprint in the United

Kingdom as a result of Brexit, the United Kingdom's rise in the FDI Confidence Index likely reflects the fact that the UK market has long been a prime FDI destination. FDI stocks account for almost 50 percent of GDP and the United Kingdom was also the largest recipient of FDI in Europe by a significant margin in 2016. In fact, since 1993, the United Kingdom has been one of the top recipients of foreign capital among all developed markets and the largest recipient of FDI in the European Union. Since FDI is generally a long-term investment in a market and the United Kingdom remains a large, wealthy economy with transparent regulations and efficient infrastructure, it is unlikely that this trend would end overnight—even with Brexit. In addition, the United Kingdom's rising position this year could be in part the result of businesses currently only in continental Europe seeking a foothold in the UK market before the country is scheduled to leave the bloc in March 2019.

Investors in both the services and IT sectors ranked the United Kingdom third as a likely investment destination. This is reflected in FDI data, as the financial services sector accounted for nearly half of all UK FDI inflow in 2015. The second-largest sector is information and communications technologies, driving about a fifth of the country's FDI inflow. By far the greatest source of FDI flow into the United Kingdom is the United States, accounting for nearly half of investments in 2015. The largest deal on record in 2016 was the merger between Belgium-based Anheuser-Busch InBev and British SABMiller, which closed for more $130 billion and is one of the biggest corporate mergers on record. Other top deals in 2016 included Royal Dutch Shell's acquisition of BG Group in a $65 billion deal to become the second-largest energy company by market capitalization and the largest technology deal ever in the United Kingdom with Japanese company SoftBank's acquisition of Arm Holdings for $32 billion.

France

France ranks 7th in this year's Index, moving up one spot from the rank it held in the previous two years. The country is identified as an investment destination relatively equally across regions and industries but is marginally favored by investors in the Americas, who ranked France in fourth place. FDI flows to France rose from $40 billion in 2015 to an estimated $46 billion in 2016, thanks to reinvested earnings that lagged in previous years. This builds on the threefold increase in FDI inflow in 2015 from 2014, when FDI inflows were a mere $15 billion.

Overall, the French economy appears to be strengthening. For instance, the country's unemployment rate fell in August 2016 to its lowest point since 2012. The IMF forecasts that France's economic growth will rise from 1.3 percent in 2017 to 1.6 percent in 2018. This growth may be in part a result of President François Hollande's reforms aimed at growing the economy, including a payroll tax credit scheme, labor reform, and deregulation, which all support a more attractive foreign investment destination. However, the presidential election at the end of April 2017 calls into question whether Hollande's successor will continue with policies that promote foreign investment, as some candidates have proposed implementing more protectionist policies.

France is considered a safe investment destination, as it is a strong player within the European Union, has strong intellectual property and reputational safeguards, and has well-developed infrastructure and distribution networks. In recent years, activity in the construction, energy, pharmaceutical, telecommunications, and technology sectors has particularly increased. For instance, the largest M&A deal in 2016 was in the telecommunications sector, with Finnish technology company Nokia's acquisition of Alcatel-Lucent for $9.7 billion, according to Dealogic. Notably, the technology sector now accounts for nearly a third of total French M&A value.

Our survey results confirm this, as investors in the IT sector especially point to France as an attractive investment destination.

Spain

Spain continues its rise in the FDI Confidence Index, jumping two spots this year to 11th. The country experienced somewhat of a comeback in 2016, with the IMF estimating Spain grew by 3.2 percent, roughly double the growth of other large economies such as Germany and the United States. Although the IMF projects that growth will abate somewhat in 2017 to 2.3 percent, this is still ahead of most other eurozone countries.

The country's economic resurgence in 2016 is especially remarkable since the country was in political crisis and without a government for more than 300 days before Mariano Rajoy was reappointed as prime minister in October 2016. During his previous term, the government pursued a variety of structural reforms—including reducing the costs of hiring and firing workers and strengthening the regulatory framework for the financial sector—that are credited with attracting foreign investors and boosting economic growth. While Rajoy seems to again want to pursue growth-enhancing reforms that will attract FDI, his ability to do so may be constrained because his party does not have a majority in Spain's parliament.

FDI has particularly boomed in Spain's rapidly recovering real estate and infrastructure sectors, which suffered from a prolonged property slump following the global financial crisis. Strong results have also been seen in the energy, retail and wholesale, and financial services sectors. According to the Invest in Spain government agency, the United States is Spain's largest source of FDI stock. This is consistent with the fact that investors in the Americas rank Spain 6th globally as a destination for FDI—its highest ranking among the three regions in our survey. The United States accounted for two of the top three M&As completed in Spain in 2016. For instance, US-based Global Infrastructure Partners bought a 20 percent stake, valued at $4.3 billion, in Spain's Gas Natural SDG. And the top deal in 2016 was Mexican conglomerate Groupo Carso's purchase of Fomento de Construcciones y Contratas, a Spanish construction company, for $6.7 billion.

Switzerland

Switzerland falls one spot from last year's Index to 12th, continuing its six-year streak among the top 25 markets for foreign investment. Although the Swiss economy grew only 1 percent in 2016, the IMF forecasts that growth will strengthen to 1.3 percent in 2017. The country is also among the global leaders in FDI inflows, likely in part because it is consistently ranked the world's most competitive economy, according to the World Economic Forum's *Global Competitiveness Report*. Switzerland also maintains a below-average corporate tax rate of 17.92 percent, which is appealing to many foreign investors.

However, the future of the Swiss corporate tax structure hangs in the balance. The European Union and the Organization for Economic Cooperation and Development have criticized Swiss cantons for the special tax status that foreign companies receive, and this issue is now center stage in Swiss politics. But in February 2017, 59 percent of Swiss voters rejected a plan that would end tax breaks for foreign companies out of concern that multinationals might not stay in Switzerland, forcing Swiss citizens to compensate for the lost tax revenues (estimated at $2.7 billion annually). Some foreign investors may delay investment decisions, awaiting clarity as the government considers new tax rate proposals.

Although UNCTAD estimates that net FDI plummeted from $70 billion in 2015 to an estimated –$6 billion because of large outflows, investment deals into Switzerland totaled nearly $20 billion in 2016, according to Dealogic. Most notably, China's HNA Group, the parent company of Hainan Airlines, announced the purchase of the leading ground handling and cargo services company, Swissport, to complement its portfolio of aviation, logistics, tourism, real estate, and financial services. In addition, Canada's largest pension fund, the Canada Pension Plan Investment Board, acquired a 40 percent stake in Swiss-based major agricultural company Glencore.

Italy

Italy's three-spot rise to 13th ties for the second-largest positive gain in this year's Index. This strong gain comes despite mixed macroeconomic indicators and political volatility after the country's December 2016 referendum. The economy grew by a sluggish 0.9 percent in 2016, and the IMF projects growth of just 0.7 percent and 0.8 percent in 2017 and 2018, respectively. More positively, separate reports by the Organisation for Economic Co-operation and Development (OECD) and Italy's National Institute for Statistics announced in February that the manufacturing sector, a major driver of the country's economy, is showing signs of recovery, and the service sector grew at its fastest rate in 14 months. However, the general election that will likely take place this fall features the populist Five Star Movement, which has called for a referendum on euro membership that may be especially worrisome to investors a year after the Brexit vote.

Italy's gain comes despite political volatility and **mixed macroeconomic indicators.**

The less-than-stellar macro environment in Italy suggests investors may be taking notice of the Italian government's strong push to attract foreign investment since the end of 2015. In recent years, the Italian Trade Agency has set up a foreign investment department to support those interested in establishing a business in Italy. And several reforms were enacted in 2015 and 2016 to facilitate increased investment, including the Jobs Act, which streamlines some labor-law processes, and a reform that aims to make starting a business in Italy easier by reducing the minimum capital requirement and simplifying registration procedures. Such reforms should make Italy's investment environment more appealing to foreign investors and could help to boost its relatively low FDI stock of just 18.6 percent of GDP.

The second-largest FDI deal in Italy in the past year was the $6.8 billion acquisition of Italcementi by Germany-based HeidelbergCement, one of the world's largest integrated manufacturers of building materials. However, this could soon be eclipsed. In early 2017, Italy accepted bids to privatize the state-owned ILVA, Europe's largest steelworks, which is a vital part of Italy's manufacturing sector. And investments by US private equity firms are increasing, particularly in high-tech companies, capitalizing on the fact that Italy largely lacks a private equity market.

Netherlands

The Netherlands remains in the 14th spot on the Index for the second consecutive year. In 2015, the Dutch economy boasted its strongest economic growth since 2007 thanks to a recovering housing market. But the IMF expects growth to taper off to 1.6 percent in 2017. And the Netherlands was not immune from an overall decline in FDI flow to Europe, with the country's inflow falling from $73 billion in 2015 to an estimated $46 billion in 2016. The narrow reelection on March 15 of Prime Minister Mark Rutte over populist candidate Geert Wilders will likely assuage any investor concerns about the Netherlands moving in a more protectionist direction though.

The Netherlands is home to a robust creative industry, attracting companies in fashion, advertising, entertainment, and media. For example, fashion industry giant Tommy Hilfiger is based in the Netherlands, and Calvin Klein and Forever 21 have their European headquarters there. In addition to the creative industries, some of the country's other thriving sectors include agri-food, information technology, chemicals, and life sciences and health. The Netherlands is an attractive FDI destination because it offers a first-class infrastructure system (ranked fourth globally on the World Bank's Logistics Performance Index), one of the lowest costs of living in Western Europe, and a multilingual workforce with 90 percent English fluency.

The United States continues to be the single largest source of FDI flows to the Netherlands, despite a stronger and more widespread interest by European investors in our survey. One example of American FDI in the Netherlands is the $4.2 billion FedEx merger with TNT Express, a mail and courier services provider and previously the fourth-largest global parcel company, as FedEx seeks to gain a stronger foothold in the European parcel market. Interest by Chinese enterprises is also growing. For example, in May 2016, the China Holland Innovation Center was opened in The Hague to support Chinese companies in the process of setting up business in the Netherlands.

Sweden

Sweden makes the largest positive gain in the rankings this year, surging seven spots to 15th and reclaiming the position in the mid-teens that Sweden has held in previous years. The Swedish economy grew 3.6 percent in 2016, driven largely by increased exports as a result of a depreciated krona, and the IMF expects it to grow 2.6 percent in the coming year. FDI inflows rose from $6 billion in 2015 to an estimated $25 billion in 2016, boosted by a large $9.9 billion acquisition of pharmaceutical company Meda AB by US-based Mylan. Several factors are likely contributing to investors viewing Sweden as a more attractive investment destination, including its three-spot rise to sixth place in the World Economic Forum's *Global Competitiveness Report 2016–2017* and its top rank on the Forbes' list of the Best Countries for Doing Business 2017.

Sweden has some of the most liberal foreign investment laws in the world, a relatively low corporate tax rate of 22 percent, and almost always allows 100 percent foreign ownership. For holding companies, Sweden also offers tax exemptions on capital gains and dividends and other incentives. The country is well-known for being globalized, a leader in innovation, and offering a highly skilled labor force with a superior telecommunications infrastructure. As a result, it is held in high regard by investors interested in the clean technology, IT, life sciences, automotive, and materials sciences industries. And since Sweden is a regional financial hub with a large financial services industry, its rise in the rankings may reflect that it is one of the big FDI winners from Brexit.

Sweden also prides itself on being a country that supports entrepreneurship, and notable tech start-ups such as Spotify, SoundCloud, and King (the maker of Candy Crush) were created there. To further support its booming technological industries, the Swedish parliament approved a measure to lower the energy tax rates for data centers, which went into effect on January 1.

Ireland

After making its first appearance in more than a decade in last year's Index, Ireland rises three spots to 20th. In 2016, Irish economic growth was a robust 4.9 percent, and the IMF forecasts a strong growth rate of 3.2 percent in 2017, which is one of the highest growth forecasts for a eurozone country.

After surging from $37.4 billion in FDI in 2014 to $188 billion in 2015, UNCTAD estimates Ireland suffered a $1.2 billion net divestment of FDI last year because of foreign affiliates in Ireland decreasing their loan liabilities to parent companies. But there were still significant FDI inflows to Ireland last year. According to IDA Ireland, the country's agency for attracting foreign investment, 244 new investment projects were added in 2016, 99 of which were from new investors.

Some of the world's most recognizable brands, **including Facebook, Google, and Apple,** have flocked to Ireland.

Ireland is well-known for its low corporate tax rate of 12.5 percent, which has enticed investment from pharmaceutical and technology firms for decades. It is now under increased scrutiny and subject to some uncertainty, however. Some of world's most recognizable brands, such as Facebook, Google, Hewlett-Packard, Johnson & Johnson, Intel, Dell, and Apple, have flocked to Ireland in recent years. But in August 2016, the European Commission ruled that Ireland must demand back payment of $13.9 billion in taxes from Apple for 2003 to 2013, when it found that the technology giant had been paying an effective tax rate of only 0.005 percent. Apple and Ireland filed an appeal to this decision, and Apple missed the imposed January 3 deadline for payment. As the legal proceedings unfold in the months—and possibly years—to come, investors will likely keep a close eye on any EU pressure on Ireland to raise its tax rate. This dynamic could also affect firms deciding whether to stay in the United Kingdom after Brexit since the Irish government has announced the country is "open for business" for any corporations looking to relocate.

Belgium

Belgium falls three spots to 22nd. Inward FDI flows fell dramatically in 2016, but inward FDI stock continues to be among the highest globally at around 94 percent of GDP. The IMF expects the country's GDP growth to hold steady at 1.4 percent annually through 2018, although the Belgian national bank has argued that were it not for the terrorist attacks in 2016, growth would have been closer to 2 percent. This could indicate the economy is stronger than topline figures indicate.

Belgium's corporate tax rate of 33.99 percent is significantly higher than the EU average of 22.09 percent and the third highest in the eurozone after France and Malta. Yet Belgium ranks in the top 20 on the World Economic Forum's *Global Competitiveness Report 2016–2017* and offers several benefits to investors, including a highly educated and skilled population, well-developed infrastructure, low levels of inequality, access to quality financial services, and a high capacity for innovation. Its place as the seat of EU institutions could be appealing to some investors—as referenced by Lloyd's of London deciding to open a new EU insurance company in Brussels as a result of Brexit.

Investors' attitudes toward Belgium varied significantly. Those in Europe ranked the country in 12th place, while those in Asia Pacific ranked it much lower. Belgium also scores nearly twice as well with investors in the services sector than in the industry or IT sectors. However, the government is trying to diversify the sources of its foreign investment, targeting in particular the biotechnology, agri-food, environmental technology, pharmaceuticals, information communications technology, and transport and logistics sectors.

Austria

Austria rounds out the European countries in the Index, maintaining its rank of 24th. The economy rebounded in 2016 to 1.7 percent growth, after experiencing sluggish growth of nearly half that in 2015. The outlook remains positive, with the IMF forecasting modest growth of 1.5 percent in 2017. The country's very low unemployment rate of 5.9 percent is another strong indicator in the country's favor.

However, newly elected centrist President Alexander Van der Bellen will face challenges maintaining strong economic growth and social stability in the coming years. The refugee crisis has been central to political debate in Austria, and it is not hard to understand why. In 2016, the country absorbed nearly 43,000 immigrants after a peak of more than double that in 2015. Medium-term economic growth may be directly linked to the refugees' ability to integrate into the labor market. Bellen has pledged to help integrate asylum seekers quickly by supporting them with German language courses and assistance in finding employment. If his government is successful, this could provide an opportunity for foreign investors in the form of a larger and lower-cost labor force.

Some of the main sectors for investment in Austria are food and beverage, engineering, chemicals, automotive, and the wood, paper, and pulp industry. The value of all 2016 M&A deals in Austria totaled $6.5 billion. The strongest investor interest stems from Europe, with the country's two largest M&A transactions both coming from German companies. Vonovia, Germany's largest housing association, purchased real estate developer Conwert Immobilien Invest for $3.3 billion, and a consortium composed of Allianz, Europe's largest insurer, and Italian natural gas distributor Snam purchased a 49 percent minority stake in Gas Connect Austria valued at $682 million.

Asia Pacific

The top two emerging market performers on the FDI Confidence Index are China and India, both of which are in the top 10 for the second year in a row. Thailand is the other Asian emerging market this year, ranking 19th. This reflects the fact that among emerging and frontier markets, developing Asia consistently attracts more FDI than any other region, although it suffered a decline in inflow in 2016. Developed markets in Asia perform relatively well on this year's Index as well. Japan, Australia, and Singapore rank in the top 10 for the second consecutive year. And UNCTAD estimates that FDI inflows to Australia and Japan were particularly strong in 2016. Although South Korea falls one spot this year to 17th, New Zealand marks its inaugural appearance on the Index, capturing the 23rd spot.

China

After holding the number two spot since 2013, China falls one spot to 3rd—maintaining its streak among the top three for the history of the FDI Confidence Index. The IMF forecasts

Chinese economic growth of 6.5 percent in 2017 and 6.0 percent in 2018. This improved outlook is partly because of expectations that China will continue to enact policies from its 2014 stimulus plan, which includes lowering lending rates and relaxing property purchase regulations for foreigners. Beijing also plans to pursue structural reforms to make the economy more driven by domestic consumption and the services sector, which would support long-term economic growth and create new opportunities for foreign investors.

China's FDI inflows grew 2.3 percent in 2016 to an estimated record $139 billion, making it the third-largest recipient of FDI in the world, according to UNCTAD. Greenfield investments continue to represent a significant portion of FDI in China—roughly $20 billion per year—although in 2015, the country lost its place to India as the top greenfield destination in terms of capex. Manufacturing remains the top sector for greenfield investment in China but investments are shifting away from heavy industry to services and technology. The shift is reflective of the changes under way in the country at large. For instance, average hourly manufacturing wages have tripled to $3.60 between 2005 and 2016, decreasing the country's cost competitiveness as a manufacturing base. Other sectors that receive significant FDI include infrastructure and real estate.

Beijing appears keen to continue to improve China's attractiveness to foreign investors. At a meeting of China's State Council in October 2016, the government announced its plans to cut substantial red tape surrounding foreign investment registration procedures based on pilot reforms tested in free-trade zones in Shanghai, Guangdong, Tianjin, and Fujian. Beijing also announced a goal of increasing foreign investment in healthcare, education, sports, and culture. If implementation of these reforms is successful and the new rules are transparently applied, then China's FDI inflows may grow even more in the coming years.

Japan

Japan ranks 6th for the second consecutive year in the Index and ranks 3rd in terms of the economies about which investors are most optimistic. Japan's continued strength on the Index is likely in part because of its improving economic performance. Economic growth is exceeding its long-term trend projections, the labor market is tightening, and core inflation returned in January 2017 for the first time in two years (and following two decades of on-and-off deflation). However, continual low inflation expectations and a shrinking workforce, which last peaked in 1998, remain key economic challenges.

Japan's strength on the Index likely also stems from its transparent regulatory system and its importance in the broader Asia region. Investors overall view the country as a leader in advanced technology and research and development. This is reflected in the country being ranked 4th globally by investors in the IT industry in our survey. However, Japan ranks 34th globally in the World Bank's *Doing Business 2017*—relatively low compared with its large developed market peers. Japan also poses some unique cultural and language barriers to foreign investors, which could explain the much higher ranking of second place among Asia-Pacific respondents compared with investors based in Europe or the Americas.

As noted in last year's Index, the government is implementing reforms in an effort to attract more FDI. While Japan's FDI stock remains the lowest in the OECD at just 4.1 percent of GDP, recent growth in FDI to Japan paints a promising picture for the world's third-largest economy. There was a significant shift from net divestments in 2015 (-$2 billion) to robust net inflows in 2016 (estimated at $16 billion), thanks to an uptick in cross-border M&As, which rose from $3 billion to $20 billion over the same period. In the largest of these deals, a consortium led by

French company Vinci and Japanese company Orix acquired New Kansai International Airport for $13.6 billion, making it one of Japan's biggest public-private partnerships. Another large acquisition was that of electronics maker Sharp by Taiwanese iPhone assembler Foxconn Technology Group for $7.9 billion.

India

For the second year in a row, India appears in the top 10, rising one spot to 8th. One likely reason for India's growing FDI attractiveness is its extraordinary economic performance. After estimated economic growth of 6.6 percent in 2016, the IMF forecasts India will be the world's fastest-growing major economy in the coming years, with 7.2 percent growth this year and 7.7 percent in 2018. Another reason for investor optimism is the country's mammoth population—India is home to 1.3 billion people, or approximately 18 percent of the world's population—creating a large potential workforce and consumer base.

Last year, India attracted the **highest amount of announced greenfield investments** based on capex.

While India remains among the top 10 largest recipients of FDI, inflows fell by an estimated 5 percent to $42 billion in 2016 as a result of equity divestments by foreign investors. This reflects a broader trend of declining investments in emerging markets in 2016. Importantly, though, India has positive momentum in greenfield projects. Last year, the country attracted the highest amount of announced greenfield investments based on capex for the second year in a row, with notable gains in manufacturing.

India's government is considering several important policy reforms to further boost FDI inflows. A proposal to loosen FDI regulations on the retail sector for domestically manufactured goods is being evaluated, in part to support Modi's "Make in India" initiative and bolster the manufacturing industry, which has historically lagged services in FDI. The government is also eliminating the need for FDI approvals in sectors where licenses are also required, such as defense, telecommunications, and broadcasting. In addition, the government announced its intent to abolish the Foreign Investment Promotion Board to reduce barriers to entry. And while the sudden demonetization drive in late 2016 caused immediate chaos because of severe cash shortages and called into question the government's judgment, recent signals suggest the long-term impact of this action may prove to be positive.

Australia

Australia falls two spots to 9th this year, but the country is in the top 10 for the seventh consecutive year. Estimated FDI inflows more than doubled in 2016 to $44 billion with strong equity investments and a marked rise in intracompany loans from parent companies to their affiliates in Australia. The country also boasts a remarkably strong economy as it holds the longest streak for quarters without a recession among OECD countries (26 years and counting). Furthermore, 35 percent of investors are more optimistic about Australia's economic outlook this year than they were last year.

The Australian economy may be on an upward trajectory because it is susceptible to fluctuations in Chinese demand—China is Australia's largest trading partner—and investor consensus is that China's economy is strengthening. These strong economic ties to Asia's largest economy likely explain why investors in Asia Pacific ranked Australia in an impressive third place in terms of markets in which they are likely to make investments in the coming years. This would continue the trend from recent years as the second-largest transaction in 2016 was China's State Power Investment Corporation's $2.2 billion acquisition of Pacific Hydro Group, one of the largest acquisitions ever by a Chinese firm in Australia.

As noted in last year's Index, investors are navigating mixed signals from the government regarding openness to FDI. On the one hand, they are required to seek government approval through the Foreign Investment Review Board (FIRB), with especially stringent requirements imposed on four "sensitive" sectors: banking, airports, shipping, and telecommunications. In addition, the threshold by which investors in the agricultural and agribusiness sectors must seek FIRB approval has been lowered, delaying the overall process as more investors are reviewed. On the other hand, a boom in the price of commodities in the second half of 2016 and growing opportunities in infrastructure investments are likely to attract investors. A recent reform by the FIRB lifts the $190 million threshold for developed commercial land so acquisitions below that amount generally do not require screening. And in December 2016, the Australian Trade and Investment Commission released a report profiling upcoming infrastructure investment opportunities in the country, citing an emphasis on transport, utilities, and social infrastructure.

Singapore

Singapore maintains its 10th-place ranking to round out the top 10. Investors from the Asia Pacific region and those in the industry sector showed the strongest interest in investing in Singapore, according to our survey.

The IMF estimates that Singapore's GDP growth was just 1.7 percent in 2016 but expects it to rise to 2.2 percent in 2017. The manufacturing and services sectors experienced strong rebounds at the end of 2016 as industrial production jumped 21.3 percent in December. Overall, Singapore's standout sectors continue to be financial and insurance services, wholesale and retail trade, and manufacturing. In one notable deal, French container transportation and shipping company CMA CGM assumed control of Neptune Orient Lines, a top global shipping container company, for $5.3 billion.

Singapore has a very welcoming business investment environment, ranking second in the World Bank's *Doing Business 2017* and the World Economic Forum's *Global Competitiveness Report 2016–2017*. In addition, a Euromoney Country Risk survey released in March finds that Singapore is ranked the least risky country in the world for investments across 15 dimensions relating to economic, political, and structural risk. Despite many strong indicators, UNCTAD estimates FDI inflows to Singapore fell 23 percent from $65 billion in 2015 to $50 billion last year. Singapore is one of Asia's most export-dependent economies, and as anti-globalization rhetoric sweeps through markets around the world, its economic growth and FDI inflow could suffer.

South Korea

South Korea falls one spot in this year's Index to 18th. This is indicative of South Korea's mixed outlook on investment. While FDI inflows rebounded to $9.4 billion in 2016 from $4 billion the previous year, political instability surrounding the recent impeachment and arrest of former

President Park Geun-hye may have caused some investors to pause. Prime Minister Hwang Kyo-ahn is acting president until a national election in May, at which point the new government will need to steady a rocky economy and deal with the potential renegotiation of the US–Korea Free Trade Agreement.

The Korea Trade-Investment Promotion Agency highlights that Korea's electronics and automobile industries are especially attractive investment options for foreigners thanks to the supply chain networks that Korean companies such as Samsung, LG, and Hyundai have created. The global transport and storage industry is also a significant draw for foreign investment. For example, Dubai-based shipping company DP World acquired from Samsung an additional 23.94 percent stake in Pusan Newport Company for $250 million in 2016.

FDI inflows in South Korea rebounded in 2016, but political instability may have caused some investors to pause.

Overall, South Korea was the target of only eight large (valued at more than $100 million) cross-border M&As in 2016, according to Dealogic. The largest deal was Canada's Brookfield Asset Management's $2.5 billion acquisition of International Finance Center, a large-scale commercial complex in Seoul. However, the outlook could be brighter for the year ahead. In March 2017, GE Chairman Jeffrey Immelt met with the heads of Korea's largest energy companies to discuss GE's interest in developing smart factories for steelmakers and signed a memorandum of agreement with Korea Electric Power Corporation CEO Cho Hwan-eik to build a high-voltage direct current grid.

Thailand

Thailand jumps two spots this year to 19th after reappearing on the Index last year for the first time in four years. Thai economic growth is forecast at a moderate 4.9 percent in 2017, following a slowdown in consumption and tourism last year. This is in part because of Thailand's political environment as the country is experiencing its first royal transition in 70 years after the death of revered King Bhumibol Adulyadej in October 2016. The ensuing year of national mourning may further delay the general election that was originally set for February 2014 until late 2017 or early 2018, extending the period of political uncertainty.

Although FDI inflow to Thailand fell sharply in 2016 after strong gains to $7.8 billion in 2015, applications for foreign investment in Thailand tripled year on year in value in the first eight months of 2016. This activity, along with investors' continued interest in Thailand as an investment destination, suggests FDI will pick up again. Importantly, Japanese companies—the largest investors in the country—do not appear to be shying away from their commitments in Thailand. In May 2016, Japan's foreign minister visited Bangkok to reaffirm Japanese economic ties to Thailand.

Thailand's top-performing sector is financial services, followed closely by energy, retail goods, industrials, and materials. Significant opportunities for investors have also emerged in transportation infrastructure and technology in recent years. In December 2016, Thailand's cabinet approved 36 public transportation infrastructure projects valued at around $25 billion, all of which are open to bid by foreign investors as the government hopes to engage in public–private partnerships to fund the projects. In addition, the government has pledged about $790 million of technological investment over the next five years in the areas of commerce, entrepreneurship, innovation, and content. Another $282 million project will support technology start-ups at the country's first technological innovation park southeast of Bangkok.

New Zealand

New Zealand makes its inaugural appearance in the 2017 FDI Confidence Index at 23rd place. FDI is crucial to New Zealand's economy as inward FDI stocks represent around 40 percent of the country's GDP. The services sector attracts more than half of New Zealand's total FDI (56 percent), while manufacturing (15 percent) and the primary sector (6 percent) also attract a lot of foreign investors. Estimated FDI inflows totaled $731 million in the first two quarters of 2016, and New Zealand has attracted about 40 new greenfield projects per year since 2014.

Investors from Asia Pacific are by far the most interested in FDI in New Zealand, ranking the country 14th overall. This likely reflects the fact that over half of the FDI stock in New Zealand comes from Australia, which is also the country's largest trading partner and one of the top sources of FDI inflows in 2016 ($373 million). For example, New Zealand's largest cross-border transaction in 2016 was the Commonwealth Bank of Australia's investment in Vector Gas Limited. Other top sources of FDI into New Zealand in 2016 included the Netherlands ($499 million), Singapore ($290 million), and Canada ($277 million).

New Zealand's government is keen to attract more foreign investment to support its goal of increasing exports, economic growth, and productivity. The country's Ministry of Business, Innovation, and Employment (MBIE) highlights several areas of priority to accomplish this goal in the near term. These include facilitating investments with potential direct economic impact of $3.5 billion over three years, targeting the primary industries, premium food and beverage, specialized manufacturing, infrastructure, oil, gas and mining, ICT and digital, and shared services sectors. The MBIE also aims to get foreign firms to establish R&D facilities and double the amount of capital brought into the country by investors and entrepreneurs from $2.4 billion to $4.9 billion over three years. New Zealand seems well-positioned to meet these targets as the country ranks first globally in the World Bank's *Doing Business 2017*, and there are few restrictions on establishing, owning, or operating a business in the country. In fact, the MBIE boasts that setting up a business can be completed online in a matter of hours.

Middle East and Africa

Two countries from the Middle East and Africa appear in this year's Index: the UAE and South Africa. In both cases, this marks a return to the Index after a two-year absence. The UAE ranks 21st this year, after FDI to the Middle East broadly rebounded in 2016 as oil prices recovered, according to fDi Intelligence. While overall FDI flows to Africa decreased 5 percent in 2016 to an estimated $51 billion, South Africa bucked the overall regional trend, with UNCTAD estimating its FDI inflows increased 38 percent in 2016. It should come as no surprise, then, that South Africa claims the final spot in the top 25.

UAE

The UAE returns to the FDI Confidence Index after a two-year absence, ranking 21st. FDI inflows have remained steady in recent years, reaching $11 billion in 2014 and 2015, and greenfield investments nearly tripled to 129 announced projects in that period. As a major oil-producing country, the UAE is vulnerable economically to fluctuations in the price of oil. Because of lower oil prices and reduced government spending in 2016, the country experienced slower growth, estimated at 2.3 percent. However, the IMF forecasts Emirati economic growth will strengthen to 2.5 percent this year and 3.1 percent in 2018.

The stronger forecast growth may be in part because of the government pursuing reforms to spur foreign investment and diversify the economy away from oil. Examples of such reforms include instituting bankruptcy and investment laws, simplifying the process to obtain construction permits, reducing the time required to obtain an electricity connection, and introducing compensation for power outages. The country has also pledged to improve its technological readiness and innovation. The government's recent commitments appear to be gaining traction. In the World Bank's *Doing Business 2017*, the country is highlighted as one of the top 10 economies that made the greatest improvements in business relations.

Investors may also be enticed by the UAE's infrastructure, which ranks fourth globally according to the World Economic Forum's *Global Competitiveness Report 2016–2017*. Both Airbus and Boeing have invested in Abu Dhabi's aerospace manufacturing sector, and IT investors in our survey indicated a preference for investing in the UAE, ranking it 16th overall. An especially noteworthy investment came in February 2016 as Tesla confirmed it would launch dealerships in the UAE.

South Africa

Coming in at 25th, South Africa makes a comeback to the Index for the first time since 2014. This would seem to suggest that recent FDI trends may continue: FDI inflows rose 38 percent to an estimated $2.4 billion last year after falling to its lowest level in 10 years the previous year. According to UNCTAD, the 2015 slump was a result of weak economic growth, low commodity prices, and high electricity costs coupled with divestments from non-core assets in the first quarter of 2016.

South Africa has a mixed outlook with respect to attracting FDI in the coming years. On one hand, South Africa faces challenges related to governance, exchange rate volatility, and decreased trust in political leaders. The unemployment rate stands at 26.5 percent, and electricity and transportation infrastructure investments have stalled. On the other hand, the country has opportunities to capitalize on its improving economy and regional role. Its GDP growth is expected to reach 0.8 percent in 2017 and double to 1.6 percent in 2018. South Africa is also the second-largest economy in Africa after Nigeria and an important gateway market for foreign investors to the more than one billion people in Sub-Saharan Africa. This region will be the primary source of global population growth in the coming decades, and investors may anticipate that with renewed improvements in South Africa's infrastructure and education, the country is poised to lead one of the world's next major manufacturing hubs.

In fact, industry sector investors in our survey indicated a much stronger preference for investing in South Africa than investors in other sectors did. South Africa's large semi-skilled and unskilled workforce is likely a draw for these investors as well. Recent developments in FDI seem to track with these sentiments. Automobile production has become a strong source of FDI in South Africa. For example, in 2016, BMW invested $417 million in the carmaker's South African operations to begin production of its newest X3 sport-utility vehicle model.

Conclusion and Business Implications

Unlike volatile portfolio investments, FDI projects typically have long antecedents and even longer payout periods. Accordingly, we have seen over the history of the FDI Confidence Index that investors make their FDI decisions based on long-term fundamentals, including the competitiveness and economic prospects of a market, rather than on current events. This pattern is particularly evident in this year's Index, with long-standing FDI heavyweights continuing to attract investors despite short-term political volatility—such as the United States and the five largest EU markets—and short-term economic underperformance—such as Brazil and Mexico.

However, over the years, we have also seen investor sentiment shift rapidly in the wake of dramatic governance and regulatory changes. In our view, the jury may still be out on recent politically driven changes in the operating environment in key markets such as the United Kingdom and the United States. Investors certainly seem to perceive the challenges of what we referred to as "the all-too-visible hand of political risk" in our Global Economic Outlook 2017–2021. While the global economy may finally seem to be back on course, the risk that geopolitical tensions or domestic policy changes such as rising protectionism will disrupt the global business environment is clearly front of mind for investors this year. If such a politically driven shock was to occur, it would likely cause many investors to reconsider their assessments of the attractiveness of affected markets.

We are encouraged by the fact that investors told us they overwhelmingly believe there is a strong and positive role business leaders should play in advocating for government policies that would improve economic and social outcomes and working directly with government leaders to shape these policies. We strongly agree that business leaders have a vital role to play in shaping the environment in which they operate. However, it is incumbent upon business leaders to keep in mind the long-term implications of the policies they advocate and shape. If the investment environment is to remain robust, short-term gains cannot come at the expense of long-term competitiveness and economic prospects.

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The authors wish to thank Courtney Rickert McCaffrey and Stephanie Hollinger for their valuable contributions to this report.

Appendix: About the Study

The A.T. Kearney Foreign Direct Investment (FDI) Confidence Index® is an annual survey of global business executives that ranks which markets 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 which markets investors intend to target for FDI in the coming years. Since its inception in 1998, the countries ranked on the FDI Confidence Index have tracked closely with the top destinations for actual FDI flows in the subsequent years.

The 2017 FDI Confidence Index is constructed using primary data from a proprietary survey of senior executives of the world's leading corporations. The survey was conducted in January 2017.

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 different countries and span all sectors. The selection of these countries was based on United Nations Conference on Trade and Development (UNCTAD) data, with the 30 countries represented in the FDI Confidence Index originating more than 90 percent of the global flow of FDI in recent years. Service-sector firms account for about 45 percent of respondents, industrial firms for 40 percent, and IT firms for 15 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 are the latest statistics available from UNCTAD, and all 2016 figures are estimates. The data on specific FDI deal values are from Dealogic 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/gbpc/foreign-direct-investment-confidence-index.

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Americas	Atlanta Bogotá Boston Calgary Chicago	Dallas Detroit Houston Mexico City New York	San Francisco São Paulo Toronto Washington, D.C.
Asia Pacific	Bangkok Beijing Brisbane Hong Kong Jakarta	Kuala Lumpur Melbourne Mumbai New Delhi Perth	Seoul Shanghai Singapore Sydney Tokyo
Europe	Amsterdam Berlin Brussels Bucharest Copenhagen Düsseldorf Frankfurt Istanbul	Lisbon Ljubljana London Madrid Milan Moscow Munich Oslo	Paris Prague Rome Stockholm Stuttgart Vienna Warsaw Zurich
Middle East and Africa	Abu Dhabi Doha	Dubai Johannesburg	Riyadh

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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.