Connected Risks: Investing in a Divergent World

The 2015 A.T. Kearney Foreign Direct Investment Confidence Index®

Global business leaders are pursuing FDI growth strategies grounded in informed optimism.

Foreword by Paul Laudicina

A.T. Kearney issued its first Foreign Direct Investment (FDI) Confidence Index® in June 1998, in the shadow of the 1997 Asian financial crisis. Despite jitters following economic collapse in Southeast Asia, businesses saw investment opportunity in the Americas, Western Europe, Russia, and East Asia, and the United States took first place.

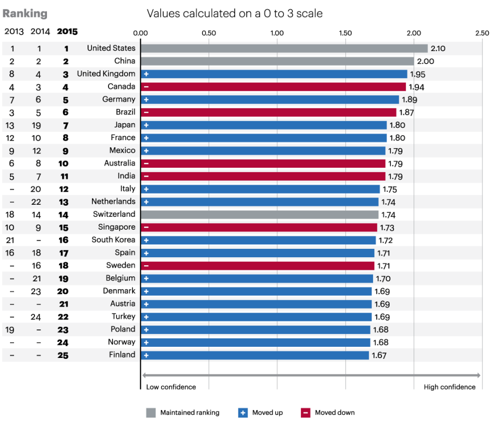
Here we are in 2015, with the United States first place in the Index again and business executives still tormented by a recent global financial crisis. Today's investors must account for divergent monetary policies in large developed economies, alongside a surging U.S. dollar and a sustained commodity super-slump. Developed and developing markets alike are moving in unexpected ways.

Read more

The Foreign Direct Investment Confidence Index®, established in 1998, examines the overarching trends in FDI. The top 25 ranking is a forward-looking analysis of how political, economic, and regulatory changes will likely affect countries' FDI inflows in the coming years. Over its 17-year history, there has been a strong correlation between the rankings and global FDI flows. Since its inception, countries ranked in the Index have consistently received at least half of global FDI inflows roughly one year after the survey (see sidebar: About the Study).

As in past editions, this year's Index offers valuable insights into how business leaders regard the medium-term economic outlook. Several major trends emerge from the findings (see figure 1):

Figure 1
2015 FDI Confidence Index® ranking and scores



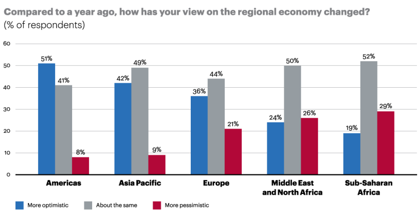
Source: A.T. Kearney Foreign Direct Investment Confidence Index®, 2015

- **Developed markets reign in the Index.** Seven of the top 10 countries on the Index and nearly three-fourths of all countries ranked in the top 25 are developed markets, highlighting how investors are seeking safer ground for new opportunities. Interest in frontier (newly emerging) markets varies drastically by region. American investors are least interested in frontier markets, with 42 percent not invested or seeking to divest.
- **Europe sets an all-time record with 15 countries in the top 25.** No region has ever dominated the top 25 of the Index like Europe in 2015. The continent's 60 percent share of the rankings is a sharp rise from its 40 percent last year and roughly 30 percent in 2013. Third-ranked United Kingdom leads the way, continuing a three-year upward trend. Germany moves up to 5th, Italy

jumps eight positions to 12th, and the Netherlands moves up nine positions to 13th. Austria (21st) makes its first appearance in the Index since 2002. Norway (24th) and Finland (25th) join the list for the first time ever, rounding out a strong Nordic showing, with Sweden 18th and Denmark 20th. Switzerland remains steady at 14th, while Spain (17th) and Belgium (19th) move up the list. Turkey moves up to 22nd and Poland (23rd) rejoins the list after a one-year absence.

- **The United States tops the Index for the third straight year.** The United States' lead over second-place China shrank from last year's record-setting margin, but it still leads all countries when it comes to investors' positive macroeconomic outlook. Forty-six percent of business executives say they are more optimistic about the U.S. economy's outlook than they were a year ago, and only 10 percent say they are more pessimistic. Asia-headquartered companies are the most optimistic about the U.S. economy, with 44 percent predicting GDP growth above 3.6 percent over the next three years. International business executives even say that they are willing to overlook continued political gridlock in Washington, D.C.
- **China is second for the third straight year.** Business executives are carefully watching China for economic growth of around 7 percent, and for signs of a successful transition to a consumption-led economy. If those indicators emerge, most executives say their companies would increase investment activity into China. Overall, countries in Asia Pacific have a mixed showing in the Index, with Japan rising to 7th (from 19th last year), and South Korea reentering the Index at 16th after going unranked last year. Australia (10th), India (11th), and Singapore (15th) fall in the rankings but maintain top 20 positions.
- **Business executives are optimistic about the Americas.** Investors are more optimistic about the Americas than any other region, led by the United States but also including Canada (4th), Brazil (6th), and Mexico (9th). Fifty-one percent of respondents are more optimistic about economies in the Americas than last year and only 8 percent are more pessimistic. In contrast, investors are more pessimistic about the economies of both the Middle East and North Africa (MENA) and Sub-Saharan Africa, where no countries make this year's rankings (see figure 2).

Figure 2
The outlook for regional economies

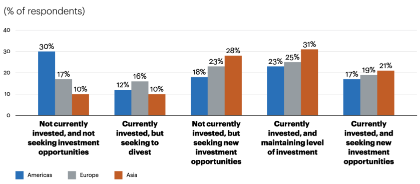


Source: A.T. Kearney Foreign Direct Investment Confidence Index®, 2015

- **Global FDI flows hold steady, but still lag their pre-2009 peak.** By next year, two-thirds of com.panies plan to return to pre-crisis FDI levels. The most important factor for investors in deter.mining which countries to target remains market size, followed by a variety of regulatory factors affecting the ease of doing business and perceptions of the internal security environment.
- **Would-be investors still feel uncertain about the global environment.** Macroeconomic uncertainty remains the most important single factor holding back FDI. Executives are evenly split about whether global economic fundamentals support higher growth now compared to before the crisis. Beyond the long tail of the Great Recession, rocky geopolitics in 2014 weighed on executives' minds. Thirty-nine percent of respondents say an increase in geopolitical tensions is possible in the next year; this is particularly a concern among America- and Europe-headquartered businesses.
- **Asian executives are eager to invest.** Asian investors lead the charge with the strongest commitment to restoring pre-recession levels of FDI, a willingness to take greater risks, and pronounced interest in frontier markets. Seventy-one percent of Asian investors plan to return to

pre-recession levels of FDI by next year, the highest level of any region. Asian business executives are least concerned about the likelihood of an increase in geopolitical tensions or political crises in developed or developing markets. Eight out of 10 Asian investors are interested in either maintaining, commencing, or increasing investments in frontier markets (see figure 3). Even regarding Russia, which is not ranked in this year's Index, Asia-headquartered companies remain the most bullish on investing in the country in the medium term.

Figure 3
Level of investor interest in frontier markets

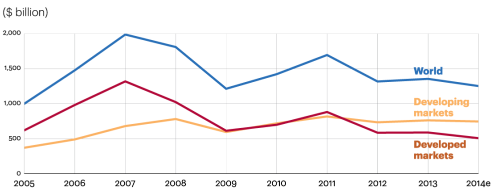


Source: A.T. Kearney Foreign Direct Investment Confidence Index®, 2015

2014 FDI Flows Relatively Steady, Still Not Recovered

Looking back at 2014, global FDI inflows declined 8 percent to $1.26 trillion, according to estimates from the United Nations Conference on Trade and Development (UNCTAD).[1] Despite the relative stability, FDI levels remain at just two-thirds of the record levels reached in 2007. FDI flows to developed countries fell by 14 percent last year, while flows to developing countries increased by 4 percent to a new high of $700 billion, or 56 percent of the global share (see figure 4).

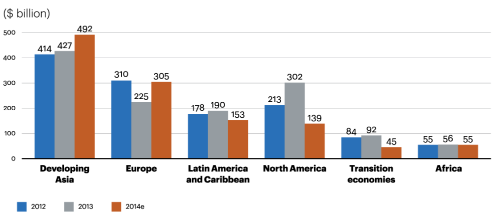
Figure 4
World FDI inflows (2005–2014)



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

Regional estimates by UNCTAD indicate that developing Asia (excluding the western part of the continent) received the greatest FDI inflows, increasing 15 percent to $492 billion, with China (up 3 percent to $128 billion) the largest single FDI recipient. FDI inflows to the Americas fell by more than 50 percent to $139 billion, a drop largely caused by sizable divestments in the United States. In contrast, European countries saw an increase of 13 percent to $267 billion. Inflows to Latin America fell by 19 percent, and inflows to Africa decreased by 3 percent. Transition economies, including Russia, fell by more than 50 percent to $45 billion (see figure 5).

Figure 5
FDI inflows by region



Note: Transition economies include Southeast Europe, the Commonwealth of Independent States, and Georgia.
Sources: United Nations Conference on Trade and Development

Data from Thomson Reuters' 2014 M&A Financial Advisory Review show that global M&A had its largest increase since 2007, with more than 40,000 deals worth more than $3.5 trillion—a 47 percent increase from 2013. Large-cap deals of more than $5 billion almost doubled in volume with 95 deals announced in 2014. Media, healthcare, and energy were the most active sectors, while telecommunications was the only sector to see a decline, despite an uptick in European activity. Cross-border M&A totaled $1.3

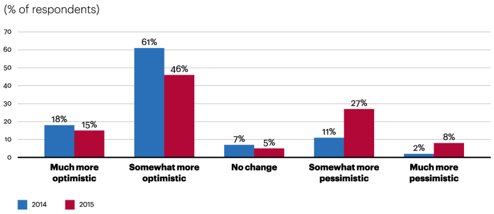
trillion, a 78 percent increase from 2013, and accounting for 37 percent of the total M&A volume.

Cautious Optimism Despite Risks and Low Growth

As A.T. Kearney's 2015–2020 Global Economic Outlook examines in depth, the world economy is in a period of growth with divergence. The divergence is all the more evident as the monetary policies of central banks in major economies from Washington to Beijing and Brussels part ways and currency values reach new highs and lows. Meanwhile, growth has reached what IMF Managing Director Christine Lagarde has called a "new mediocre," with expected annual global GDP increases of only 3 to 4 percent. While the United States seems to be on solid footing again, Europe remains lackluster, Japan has fallen back into recession, and developing markets are showing wildly varying levels of growth. China is now targeting 7 percent annual growth, and adjustments within its economy have driven down worldwide commodity prices, leaving many investors wary of any further signs of slowdown.

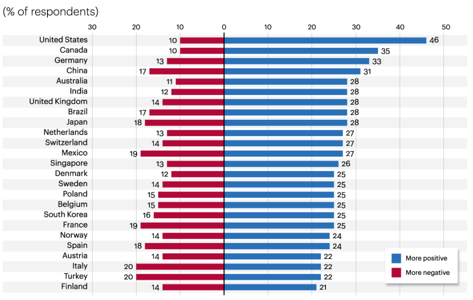
Despite these realities, most business executives are optimistic. Sixty percent of respondents say they are more optimistic about the global economy than they were a year ago—notably down from the 79 percent who held the same view last year, but still reflective of a more grounded optimism (see figure 6). Investors are most enthusiastic about the prospects for the United States, Canada, and Germany in the year ahead (see figure 7). On the question of whether the fundamentals of the global economy today support significantly or moderately higher levels of growth than prior to the crisis, investors are split down the middle (see figure 8).

Figure 6
Compared to a year ago, how has your view on the global economy changed?



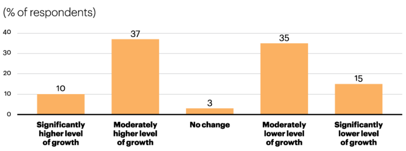
Source: A.T. Kearney Foreign Direct Investment Confidence Index®, 2015

Figure 7
Is your outlook on this country more positive or negative than it was in 2014?



Source: A.T. Kearney Foreign Direct Investment Confidence Index®, 2015

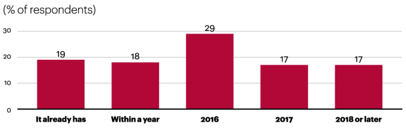
Figure 8
How have the fundamentals of the global economy changed since the 2008 crisis?



Source: A.T. Kearney Foreign Direct Investment Confidence Index®, 2015

Business executives have continued to postpone a return to pre-crisis investment levels (see figure 9). In the 2014 Index, 85 percent of respondents expected to restore FDI to pre-crisis levels by 2016; in 2015, 66 percent say they will reach those levels by 2016.

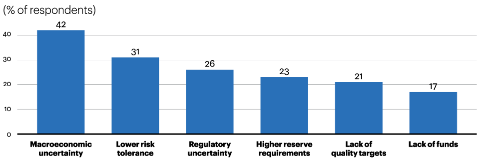
Figure 9
When will your company's FDI return to its pre-crisis level?



Source: A.T. Kearney Foreign Direct Investment Confidence Index®, 2015

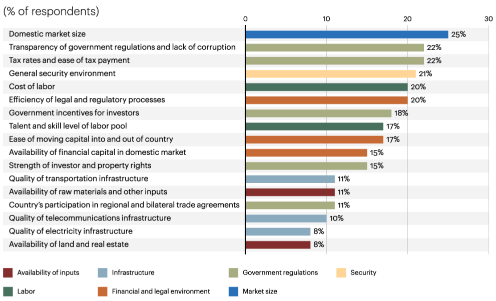
When asked why FDI levels have not recovered, respondents say that macroeconomic uncertainty remains the most important factor, followed by a lower risk tolerance (see figure 10). With discounted prices and sufficient funds available, however, companies are equipped to invest if they can navigate the spectrum of risk. In identifying markets for FDI, executives continue to prioritize market size, followed by a variety of regulatory factors affecting the ease of doing business and the overall security environment (see figure 11).

Figure 10
If your company's FDI hasn't recovered, why not?



Source: A.T. Kearney Foreign Direct Investment Confidence Index®, 2015

Figure 11
What are the most important factors to your company when choosing where to make foreign investments?

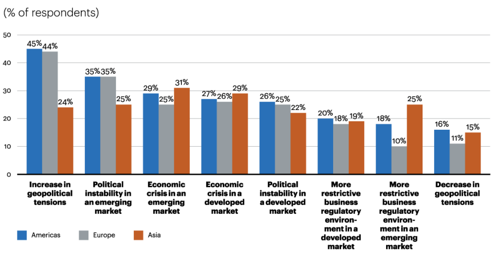


Note: Respondents selected three factors.
Source: A.T. Kearney Foreign Direct Investment Confidence Index®, 2015

Geopolitical Uncertainty Colors Future Outlook

The geopolitical roller coaster of 2014 appears to have weighed on the minds of business executives as they ponder the future outlook. Thirty-nine percent of respondents—and particularly those headquartered in the Americas or Europe—cite an increase in geopolitical tensions as possible in the next year. Investors are also concerned about political instability in developing markets, as well as economic crises in both developing and developed markets (see figure 12).

Figure 12
Which wild cards are more likely to occur in the next year?



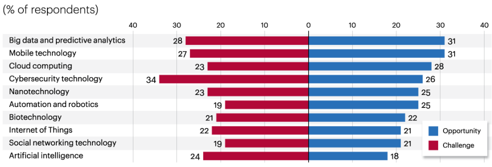
Source: A.T. Kearney Foreign Direct Investment Confidence Index®, 2015

The notable absences of Russia, the Middle East, and Africa from this year's Index owe at least in some measure to geopolitical quakes in those regions, from the Ukraine crisis and resulting sanctions to the advance of extremist groups in Iraq and Syria to the Ebola outbreak in West Africa.

Technology Cuts Both Ways; Cybersecurity Concerns Dominate

Business executives view technology as a double-edged sword. The investors we surveyed identify big data and predictive analytics, mobile technology, and cloud computing as the biggest technology opportunities, yet those advances as well as many others are also perceived as major challenges by almost as many investors (see figure 13). And while two-thirds of executives believe that consumer data has simplified their companies' decision-making on operations and strategy, they are split on whether consumer data-informed strategy has in fact yielded better results for them.

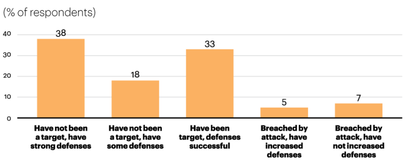
Figure 13
Which technological advances does your company view as the biggest opportunity or challenge?



Source: A.T. Kearney Foreign Direct Investment Confidence Index®, 2015

Two out of three business executives surveyed say they are moderately or significantly worried about cyberattack, unsurprising in a year marked by high-profile hacking against major companies. Forty-five percent say that their firms have already been targeted by cyberattack, with 12 percent admitting to a past cyber breech and 33 percent believing that their defenses were successful (see figure 14).

Figure 14
What is your company's experience with cybersecurity and cyberattacks?



Source: A.T. Kearney Foreign Direct Investment Confidence Index®, 2015

Regional Findings and Context

Americas

The United States leads the Index for the third year in a row, and North America makes a strong showing with Canada and Mexico also in the top 10. In South America, Brazil is the only ranked country.

The economy of the **United States**seems to have entered a period of steady recovery more than six years after it suffered its largest financial crisis since 1929. FDI inflows to the United States in 2014 fell by two-thirds to $86 billion, however this was due in large measure to Verizon's $130 billion mega-buyback of shares from UK-based Vodafone, which created a large outflow. In 2014, FDI inflows in manufacturing increased by 25 percent, with more than half of all investment in manufacturing geared toward chemicals.

The United States is aggressively courting foreign investors through its SelectUSA program, which is engaged in an outreach campaign to raise awareness among foreign business investors regarding opportunities in the United States, better cataloging existing U.S. grants, loans, loan guarantees, and highlighting tax incentives for foreign investors.

Although outflows from China increased in recent years, Chinese investment in the United States was a mere $1.0 billion in 2014, a 60 percent decrease from 2013 levels. On the other hand, Japan was for the second straight year the largest source of FDI inflows to the United States, with more than $45 billion of new investments. In the largest Japanese deal of the year, Suntory Holdings acquired Beam Inc. for $16 billion in April 2014 to create the world's third-largest high-end spirits maker. The deal worked off Suntory's plans to expand its overseas operations in the face of an aging population at home. In June 2014, Dai-ichi Life Insurance announced its $5.7 billion acquisition of Protective Life, and in December, Otsuka Pharmaceuticals announced the acquisition of Avanir Pharmaceuticals, a developer of treatments for neurological diseases, for $3.5 billion.

The pharmaceutical and healthcare industry has been extremely active. Significant acquisitions include Germany-based Bayer's purchase of Merck and Co. for $14.2 billion, Swiss firm Roche Holding's acquisition of InterMune for $8.3 billion, and German giant Merck KGaA's purchase of Sigman-Aldrich for $17 billion. Actavis, headquartered in Ireland, took part in two of the biggest deals of the year—its $70.5 billion acquisition of Allergan and its $28 billion purchase of Forest Laboratories.

In January 2014, Italian automaker Fiat completed its acquisition of Chrysler for $4.35 billion. Following Chrysler's announcement of bankruptcy in 2009, Fiat had already shared ownership with the United Automobile Workers union; the acquisition gave Fiat full ownership and further expanded its global presence.

Canada's 4th place ranking is unsurprising, given that it attracted an estimated $53 billion in 2014 FDI inflows. A number of trade agreements signed in 2014 are likely to further improve Canada's FDI stock in years ahead. The Comprehensive Economic and Trade Agreement (CETA) signed in 2014 with the EU will provide Canadian investors with access to Europe. In addition, the Canada-China Foreign Investment Promotion and Protection Agreement (FIPA) came into effect in October 2014 and will increase investment opportunities between the two countries.

With the lowest marginal effective tax rate among G7 countries, Canada continues to attract international investors seeking lower rates. In February 2015, UK-based Mylan N.V. completed the acquisition of Abbott Laboratories' non-U.S. developed market drugs business for $5.7 billion, following efforts to optimize its global tax structure and achieve greater financial flexibility. In December 2014, U.S.-based Burger King acquired Tim Hortons, the fast-casual restaurant chain, for $11 billion.

Aligned with expectations for a growing number of mergers in the oil and gas industry due to low prices, Spain's Repsol agreed to acquire Talisman Energy for $8.3 billion. The deal is expected to increase Repsol's oil and gas output by more than 75 percent, transforming it into a significant global player.

Brazil maintained its spot as the largest FDI recipient in Latin America in 2014 with inflows of $62 billion, and looking to the future, it comes in 6th in the Index. Despite sluggish economic growth, investors are still attracted by the country's large domestic market, growing middle class, and natural resource base.

Many foreign companies are looking for opportunities to reach Brazil's growing middle class. In April 2014, Banco Santander of Spain agreed to acquire the remaining portion of its Brazil unit for $6.5 billion. In March 2015, British American Tobacco offered $3.5 billion for the remaining stake in the country's largest cigarette maker, Souza Cruz.

Mexico gains three spots to reach 9th, as President Enrique Peña Nieto's reform agenda continues to improve Mexico's business climate. Its 2013 FDI levels of $38 billion were an all-time high, with the majority of investment targeted at Mexico's growing manufacturing sector, including high-value-added electronics. Mexico's Economy Ministry has reported that flows fell to $22.6 billion in 2014, with inflows of $33.9 billion offset by $11.4 billion in outflows. Significant reforms in the energy sector will occur this year to allow foreign private investment.

As a result of the telecom reforms that targeted Carlos Slim's América Móvil, which controls 70 percent of the market, customer prices fell nearly 17 percent between February 2013 and January 2015. In response to the policy changes, AT&T made a $5 billion divestment in América Móvil and subsequently acquired Grupo Iusacell SA, Mexico's third-largest wireless operator, for $1.7 billion. Going forward, these reforms are expected to open up growth opportunities for smaller competitors.

In November 2014, the American chemicals maker PPG Industries acquired paints maker Consorcio Comex for $2.3 billion. This followed the rejection by the Mexican federal compe.tition authority of the sale to Sherwin-Williams for a proposed $2.34 billion on the grounds that it would create unfair market conditions.

Europe

Europe has seen unprecedented interest from business executives this year despite its lagging economy. Several considerations are likely at play. First, Europe offers safe harbor in an increasingly volatile global economic environment. Even as negotiations regarding Greek debt continue, developments in Europe suggest fewer unwelcome surprises this year. Second, investors are also likely heartened by the European Central Bank's long overdue decision to move from austerity to stimulus through quantitative easing. Early 2015 economic data suggests that this may be the spark that awakens parts of Europe's lagging economy. And third, there remain more opportunities for foreign investors to come to the table with needed capital.

Despite the region's flat economic growth, FDI increased 13 percent in 2014 to reach $305 billion. Driving this FDI was a series of M&A megadeals consolidating the telecom industry. These deals were backed by the European Commission (EC), which announced it is encouraging the 100 operators across Europe to consolidate and increase infrastructure investment while continuing to ensure that there is sufficient competition for consumers. As part of its 2015 agenda, the EC has also prioritized forming a single digital communications market to promote growth.

The **United Kingdom**continues its ascent in the rankings, and the 3rd place ranking is its highest since 2002. In addition to breathing a sigh of relief after Scottish voters rejected a measure for full independence, investors are encouraged by the UK's economic recovery and its strong employment growth compared to the rest of the eurozone. It was Europe's top destination for FDI in 2014, with $37.1 billion in net inflows. It was also the top destination for Chinese investors, with an estimated $5.1 billion in new investments. More investment may come in the wake of multiyear tax reform initiated in 2007, which will by April 2015 reach a reduction of 20 percent—one of Europe's most competitive rates.

London's famously expensive real estate sector is a particular source of FDI interest. The early 2015 acquisition of Songbird Estates, which owns east London's Canary Wharf Financial District, is one of the biggest real estate deals in UK history at $4 billion. The sale to the Qatar Investment Authority (QIA) and Canada's Brookfield Property Partners includes plans to aggressively develop the 30 acres of vacant land for the first time since the 2008 global financial crisis. This deal followed the July 2014 deal by QIA and China Life Insurance to acquire another office building in Canary Wharf for $1.35 billion.

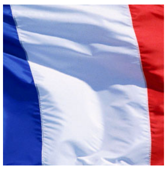
Developing market investors are also interested in UK-based food companies. In November 2014, United Biscuits was acquired for an estimated $3.2 billion by Turkey's Yildiz, creating the world's third largest biscuit maker and providing access to British markets. In one of the largest restaurant deals, Hony Capital of China acquired PizzaExpress for $1.54 billion, with plans to expand the restaurant into Asia for future growth.

In the financial sector, Canada-based Fairfax Financial Holding's announcement that it will acquire Brit Plc for $1.88 billion was one of several significant undertakings by financial companies seeking to diversify their portfolios and expand their global reach.

The worldwide trend of telecom FDI activity also occurred in the United Kingdom. In March 2015, the Hong Kong group Hutchinson Whampoa finalized an agreement to purchase O2 UK for $15.2 billion, with plans to merge the company with its existing British mobile group, Three, and create the second-largest operator with more than 31 million users. This follows the sale of EE, the UK's largest mobile group, to British operator BT for $19 billion, from Deutsche Telekom and France's Orange. If approved by regulators, this will reduce the number of mobile networks in the UK from four to three.

Germany (5th) has remained a source of stability and sound economics throughout the eurozone crisis. In 2013, Germany received $26.7 billion in inflows, but 2014 figures are estimated to be net negative inflows of minus-$2.1 billion, primarily due to changes in the flow of intracompany loans. Nonetheless, with more than 60 percent of its exports directed outside the eurozone, the ongoing devaluation of the euro, the positive effects of ECB quantitative easing, and stronger demand from the rest of Europe are expected to boost exports.

In September, British Sky Broadcasting acquired Sky Deutschland, the German broadcaster, from 21st Century Fox for $4.7 billion. The oil and gas unit of the German utility company, RWE Dea, also completed its contentious $6.3 billion sale to LetterOne, which is based in Luxembourg and owned by Russian billionaire Mikhail Fridman. The UK's Department of Energy & Climate Change had objected to the deal under concerns of future sanctions against LetterOne.



France continues to move up, gaining two spots to 8th. With the world's fifth-largest economy, the government continues to take steps to make the country more attractive to foreign investors, including tax incentives, simplified administrative procedures, and eased restrictions on investment activities. France gained 10 spots to take 61st in the World Economic Forum's Global Competitiveness Index's sub-category of labor market efficiency, showing the positive effect of its efforts for labor market reforms. As part of the National Pact for Growth, the competiveness and employment tax credit aims to boost investment by reducing labor costs by 6 percent in 2015, amounting to €20 billion in annual savings for companies.

While FDI inflows in 2014 are estimated to be negative due to the repayment of intra-company loans and Nestlé's $9 billion divestment of L'Oréal, the number of foreign investments increased by 8 percent to more than 1,000 projects. These investments targeted high-value-added activities, with production comprising 30 percent of investments and R&D contributing to 9 percent of investments.

This year has been off to a promising start on the basis of high-value deals. The announced merger of Lafarge with Switzerland's Holcim, worth $44 billion, will create the world's largest cement company. And GE's acquisition of Alstom's energy business for more than $13.5 billion, pending approval from the European Commission, has gained the support of the French government after revisions to the deal that keep some elements of Alstom's power and grid business in French hands.

Asian investors are showing strong interest in France. In January 2015, Chinese conglomerate Fosun International successfully acquired the resort operator Club Méditerranée for $1.12 billion, after an ongoing battle with Bonomi of Italy. The final deal was valued at 45 percent above the original offer. SA Peugeot Citroën received $1.1 billion from China's Dongfeng for a stake in one of the world's oldest car makers, increasing its access to capital and developing ties with China's automotive industry. Mahindra Two Wheelers of India acquired a controlling stake in Peugeot Motorcycles.

Italy gains eight spots, rising to 12th in this year's Index. Despite weak economic growth in 2014, the country continued to attract high levels of investment. In the face of a mounting unemployment crisis, the government worked to pass controversial labor market reforms under the Jobs Act that ease firing restrictions and address Italy's rigid labor market.

Italian acquisitions come at a time when recession and increased competition from abroad have caused falling profitability. The household appliance company Indesit was acquired by U.S.-based Whirlpool for a little more than $1 billion; Whirlpool gained access to European markets. And the announced sale of a 49 percent stake in Alitalia to Abu Dhabi's Etihad Airlines shored up the embattled carrier, which aims to return to profitability by 2018 by cutting the number of aircraft and flights.

Italy is aggressively targeting Chinese business investors. Prime Minister Matteo Renzi visited Beijing in June 2014 to encourage foreign investment. Efforts such as the website vendereaicinesiit, which translates as "sell to the Chinese," aim to facilitate the purchase of Italian companies. More than 200 Italian businesses are now controlled by Chinese owners. Most recently, China National Chemical announced plans to acquire Italian tire manufacturer Pirelli & C. for $7.7 billion in what would be one of the largest acquisitions by a Chinese state firm.

The Netherlands(13th) climbs nine spots, and received $42 billion in FDI inflows in 2014, a steady rise from its 2013 level of $24.4 billion and 2012 level of $9.7 billion. Efforts to increase foreign investment under the brand "Invest in Holland" target chemicals, agrifood, high-tech systems, life sciences and health, and information technology. International start-ups are also targeted under the program StartupDelta, which seeks to build Europe's best connected and largest startup ecosystem.

The United States has been the largest investor, launching 65 projects in 2014, including expansions by Expedia and Netflix. Google announced plans to build a data center in 2016, investing $773 million in the Netherlands' technology sector.

There is also movement in telecom and real estate. In January 2014, Liberty Global of the United Kingdom acquired Dutch cable operator Ziggo for $12.7 billion, adding 2.7 million cable customers to its existing Dutch unit, UPC, and creating a business that reaches 90 percent of Dutch homes. In July 2014, Klépierre, the French real estate investment company, announced plans to acquire Corio, its Dutch rival, for $9.7 billion to create the largest owner of retail shopping centers in Europe.

Switzerland remains in 14th on the Index as investors continue to recognize its world-class infrastructure and competitive business environment. In 2013, Switzerland had negative net inflows of minus-$5.2 billion after recording positive inflows of $10.2 billion in 2012. The January 2015 decision to remove the Swiss franc's ceiling against the Euro brought dramatic appre.ciation in the currency, affecting Swiss exports and creating deflationary pressures.

In 2014, the country's pharmaceutical giants were involved in multiple international strategic deals. Novartis undertook a multibillion-dollar asset swap to focus on better growing its core area and exiting weaker ones. This included the $5.4 billion sale of its animal health business to the U.S.'s Eli Lilly and the $7.1 billion sale of its non-influenza vaccine business to the UK's GlaxoSmithKline. In exchange, Novartis purchased GSK's $16 billion portfolio of cancer drugs, and the two companies entered into a new consumer healthcare joint venture.

In the largest FDI inflow of the year, Walgreens, the U.S. drugstore giant, followed up on its 2012 purchase of 45 percent of Alliance Boots by acquiring the remaining 55 percent for $16 billion. Walgreens now has full ownership as well as a strong European presence.

Spain, in 17th place, has seen an upward trend in FDI in recent years as it pulls away from the economic brink. In the face of a national debt crisis, Prime Minister Mariano Rajoy has success.fully pursued efforts to attract investors, including 2012 labor market reforms and 2015 tax reforms that will gradually reduce the corporate income tax from 30 to 25 percent by 2016. Though unemployment remains above 20 percent, growth forecasts for Spain are promising, with the weak euro supporting exports, and low oil prices offering a financial boost.

Vodafone purchased cable operator Grupo Corporativo Ono for $10 billion in efforts to offer bundled services and strengthen its competition in the Spanish market. The $3.62 billion merger of Jazztel, the Spanish broadband and cellphone operator, with France's Orange is under review for an antitrust probe by the European Union, as regulators are concerned that the merger will drive up consumer prices in Spain. The outcome will affect the rapidly consolidating telecom sector across Europe.

In July 2014, the drug maker Almirall was acquired by the UK's AstraZeneca for $2.1 billion, to gain control of its respiratory drugs. And the European private equity firm Cinven acquired Gas Natural Fenosa, the fiber-optic network operator in Spain and Latin America, for $697 million.

Sweden (18th) is ranked for the second straight year on the strength of its business environment, one of Europe's most business-friendly tax systems, and world-class infrastructure for research, which attracts investors in energy, telecom, public transport, information technology, and healthcare.

Microsoft agreed to acquire Swedish video game developer Mojang (creator of the block.buster hit Minecraft) for $2.5 billion with the aim to bolster the company's mobile efforts.

The $9.1 billion takeover of Scania AB by Germany's Volkswagen gave the largest European auto company full control of the Swedish truck maker, as it plans to fully integrate it with its own truck making affiliate, MAN.

Belgium gains two spots to 19th on the Index. Its strategic geographic location at the crossroads of Europe and strong logistics, infrastructure, transportation, and communication make it a logical destination for European platform investment. In September 2014, Clear2Pay, the global payments provider, was acquired by U.S.-based Fidelity National Information Services for $493 million. In November 2014, Perrigo of the United States agreed to purchase Omega Pharma NV for $4.5 billion. The deal expands Perrigo's presence in Europe and places it among the world's five largest providers of over-the-counter drugs.

Denmark gains three spots to take 20th. Notably, Denmark boasts the highest ranking in Europe in the Ease of Doing Business report. In 2014, the government unveiled its second growth plan in two years, further cutting costs for companies to encourage job creation and production. As a leader in clean technology and life sciences, Denmark is aiming to be the first fossil-fuel-free country in 2050; it is on track for this goal, with 39 percent of its electricity needs in 2014 met with wind energy. In early 2015, Apple announced its plan to establish one of the world's largest data centers in Denmark, a facility that will rely fully on renewable energy. Furthering Denmark's high-tech sector, Hitachi of Japan has established a big data research laboratory.

Denmark's strong biotech industry is closely connected with university research, giving it international attention and attracting investors. Santaris Pharma started off as part of a university research project and cooperated with many large pharma companies before being acquired by Switzerland's Roche for $250 million.

Austria returns to the Index after a 13-year absence and takes 21st. The Austrian economy is dominated by small- and medium-sized enterprises, which have promoted an entrepreneurial private sector. In December 2014, Roche agreed to the $489 million purchase of biotech company Dutalys, a specialist in the discovery and development of antibody-based drugs. Telekom Austria was targeted by América Móvil for expansionary efforts in Europe; the Mexican firm was forced to seek new markets in response to new regulations in Mexico designed to increase competition.

Turkey gains two spots to 22nd on the Index. Turkey's government will host this year's G20 and B20 summits in Antalya, at which it plans to emphasize implementation of a shared agenda to realize global economic growth objectives. It also has its own ambitious growth agenda, having prioritized eight key sectors and established plans for investments in infrastructure as part of its goal to become a top 10 economy by 2023, the 100th anniversary of the founding of its modern republic.

To meet those objectives in an increasingly competitive global environment, and to compensate for its relatively low domestic savings rate, Turkey will need to continue to push forward with business reforms that attract greater and more diversified FDI targeting higher-value-added industries. As a platform to serve both Europe and the Middle East and boasting the 16th largest domestic market in the world, Turkey has untapped investment potential.

In 2014, FDI inflows fell slightly to $12.2 billion, with investment to the financial sector falling by over 50 percent. However, there was an increase to the wholesale and retail sectors, particularly from European investors, with Middle Eastern investors also showing new interest.

Poland (23rd) returns to the Index after an absence in 2014. With a strategic location, large population, and economic stability, the country attracts investments in R&D, machinery, business process outsourcing, biotech, and IT. Poland stands to gain significantly from its economic interconnectedness with Germany and the ECB's quantitative easing, while its independent currency outside of the eurozone will allow the economy to adjust and retain its competitive position. Poland is also likely to benefit from substantial planned improvements of its transportation infrastructure, including road, rail, and seaports. Between 2014 and 2021, Poland will be the largest recipient of EU structural funds (more than $100 billion) further stimulating investments in infrastructure and new production capacity, increasing productivity and attracting FDI.

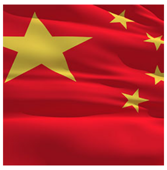
Norway makes its first appearance on the Index in 24th place. Despite a small market size, its strong natural resource base and highly educated workforce have contributed to developments in high-growth sectors such as renewable energy and ICT. Higher tax deductions for R&D under the SkatteFUNN Tax Incentive Scheme raised the basis for tax reductions and doubled the maximum ceiling. Sweden remains the most significant investor in Norway. The Swedish telecom group TeliaSonera plans to acquire Tele2, a Norwegian telecom company, for

$740 million.

Finland (25th) also debuts in the Index, capping off the strong presence of Nordic countries. Driven by its superb levels of innovation and exceptional performance in higher education, Finland ranked fourth in the World Economic Forum's Global Competitiveness Index. With one of the highest rates of R&D spending per capita, cooperation between universities and the private sector have allowed businesses to benefit from the latest research. In April 2014, Microsoft completed its acquisition of Nokia's phone business and licensed patents for $7.2 billion in efforts to revive the once global leader in mobile phones (which more than a decade ago was valued at $200 billion).

Asia Pacific

Asian countries continue to attract a growing share of world FDI inflows, and this trend will continue as domestic consumer markets continue to grow. In coming years, a finalized Trans-Pacific Partnership could unlock new trade opportunities between the Americas and Asia Pacific, while the launch of the China-backed Asian Infrastructure Investment Bank will create an alternative source of development capital for the region's developing markets.



China, second in the Index for the third year in a row, saw a 3 percent increase in FDI in 2014 and had the highest level of global FDI inflows for the first time. FDI was targeted mainly at the service sector, which has opened up thanks to ongoing reforms. In November 2014, China's National Development and Reform Commission released a new draft investment catalog that reduced the number of sectors where foreign industries are prohibited (from 79 to 38), creating new opportunities in logistics, e-commerce, transportation, and finance.

Recent reforms and the increasing pressures of globalization (particularly the need to improve efficiency to address the growing cost of labor in China) contributed to the success of recent deals struck between major corporations and Chinese state-run companies. In January 2015, one of China's largest state-owned conglomerates, Citic, sold a 20 percent stake to Japan's Itochu and Thailand's Charoen Pokphand Group for more than $10 billion. In efforts to use China's semiconductor business as a way to improve its position in the fast-moving mobile device sector, U.S.-based Intel announced plans to purchase a stake in Spreadtrum Communications for $1.5 billion. The deal includes an agreement for close collaboration to create Intel-based chips with models and wireless capability in efforts aimed at users in developing markets.

While China has succeeded in attracting FDI inflows over the past 10 years, it also is rapidly increasing its global FDI outflows, particularly to Europe. In 2014, outbound FDI flows exceeded $100 billion, nearly quadruple the $26 billion from 2007. The acquisition of Western brands has allowed Chinese firms to compete more effectively with Western firms globally.

Japan's 12-spot rise to 7th place moves it into its highest position since 2004. This may be evidence that the third arrow of the Shinz. Abe administration's growth strategy, unveiled just this past year, has increased confidence in the economy among investors. In addition to numerous measures meant to combat key demographic concerns for investors, the strategy also introduces steps such as improving corporate governance and enhancing labor mobility, which are intended to double Japan's FDI stock to 35 trillion yen (about $300 billion) by 2020.

The depreciation of the yen has made Japan's real estate market especially attractive to inter.national investors. In October 2014, Singapore's sovereign wealth fund, GIC Private Limited, paid $1.7 billion for commercial real estate in one of the most desirable locations in Tokyo. The following month, U.S.-based Blackstone announced plans to acquire General Electric's residential property business in Japan for $1.6 billion. In February 2015, Meguro Gajoen Complex in Tokyo was acquired for $1.2 billion by a joint venture between U.S.-based LaSalle Investment and China Investment Corporation.

Tenth-ranked**Australia** remains a top global destination for FDI, having attracted $50 billion in FDI inflows in 2014. Australia recently completed negotiations for three landmark trade agreements with China, South Korea, and Japan, which bodes well for its FDI outlook in the coming year. The bilateral trade deal with China eliminates many tariffs on Australian exports and allows Chinese investors to make a single investment of $950 million without review by regulators. Hong Kong-based conglomerate Cheung Kong's takeover of Envestra, an Australian gas pipeline firm, for $2.4 billion late in 2014 could be a sign of deepening of investment relations ahead.

The trade deals with Korea and Japan should also boost investment flows between these nations. In February 2015, Japan Post acquired Toll Holdings, the Australian package delivery company, for $5.1 billion, with aims to build one of the world's top five logistics companies.

India falls four spots to 11th, losing its top 10 position for the first time since 2002. Still, FDI inflows increased to $35 billion in 2014, a 26 percent increase from the previous year. As part of plans to boost economic growth and modernize the bureaucracy, Prime Minister Narenda Modi's new government launched the "Make in India" initiative in September 2014, aiming to improve the ease of doing business in India, and remove or relax foreign equity caps in several areas.

Revised estimates indicate that India's GDP grew faster than China's last year, and its consumer market remains significant, sparking broad investor interest. In April 2014, UK-based Diageo doubled its stake in United Spirits Ltd, India's largest spirits company, for $1.9 billion. Vodafone bought full control of its Indian unit for $1.5 billion, the first foreign carrier to gain full ownership since the government removed the 74 percent cap on outside ownership in the telecom industry.

Singapore falls six places to 15th, but remains among the world's most competitive and business-friendly economies. FDI inflows to Singapore in 2014 rose 27 percent to $81 billion. Singapore welcomes foreign investment in all industries, and has identified life sciences as a critical pillar of manufacturing, with continued state investments to spur sector growth. The Economic Development Board's "Home" strategy encourages companies to establish and deepen strategic activities in Singapore to drive their business, innovation and talent objectives in Asia and globally.

Singapore's sound legal framework, public policies, and strong reputation as a major hub for MNCs continues to attract diverse investment across sectors. In May 2014, Alibaba (China) announced its plan to acquire a stake in the Singapore Post for $249 million in a joint initiative to develop an international e-commerce platform to serve Southeast Asia's growing online shopping market. In November 2014, China's Jiangsu Changjiang Electronics (China) announced a $780 million offer to acquire STATS ChipPAC to develop its semiconductor business, as China becomes a global leader in the production of smartphones. In May 2014, the U.S. private equity firm KKR acquired Goodpack, a maker of containers and boxes for the chemicals, food, and rubber industries, for $1.1 billion. In February 2015, Japanese freight mover Kintetsu World Express announced plans to acquire logistics firm Neptune Orient Lines for $1.2 billion.

South Korea returns to the list this year at 16th, after missing the top 25 in 2014. The country's skilled workforce, high-tech economy, and strong growth in trade volume has led to a resurgence in FDI. Championing the concept of a "creative economy" that puts innovation and entrepreneurship at the heart of economic growth, President Park Geun-hye has pursued efforts to shift the growth model from manufacturing to innovation, with heavy investments in the start-up scene and the founding of the Ministry of Science, ICT and Future Planning.

South Korea attracts investment from all regions. In January 2014, Saudi Aramco, the world's largest crude exporter, agreed to buy a $2 billion stake in South Korea's third largest oil refiner, S-Oil Corp, from Hanjin Energy and its struggling parent company Korean Air Lines. That same month, Anheuser-Busch InBev acquired Oriental Brewery for $5.8 billion, and a month later U.S. private equity firm Carlyle Group purchased the fire and security services business of Tyco International for $1.93 billion. In February 2015, the Chinese financial company Anbang Insurance Group acquired Tonyang Life for $1 billion, part of Anbang's international growth strategy.

Optimism Amid the Risks

Even as the world grapples with continuing risks, it is clear that global business leaders are gaining optimism about the economy—with hopes the reviving U.S. market and China's still-strong growth can boost the global economy. And as the Index shows, many other countries offer lucrative opportunities for foreign investors, as difficult conditions have ultimately led to opportunities for deals.

The risks and opportunities of 2015 underscore the importance of understanding global FDI trends and knowing where the opportunities lie.