A.T. Kearney
Global Business Policy Council

Investing in a Localized World

The 2018 A.T. Kearney Foreign Direct Investment Confidence Index®

In an environment marked by stronger economic growth and elevated political risks, investors' pursuit of localization raises the importance of FDI for business strategies.

The world continues to change in fundamental ways. Amid such changes, however, we often miss what in retrospect seems clear. A few years ago, when we released our *From Globalization to Islandization* report foreshadowing a more protectionist world, many observers expressed skepticism about our conclusions. They believed that globalization was an immutable, irreversible phenomenon. Now, more than two years later, our FDI Confidence Index indicates that investors have accepted that globalization is being challenged and are seeking practical ways to ensure continued access to key markets.

And yet in some ways, the more things change, the more they stay the same. So it is with investors' reliance on FDI to implement their business strategies. In the heady days of globalization, FDI was essential to creating globalized value chains. Today, in an increasingly "islandized" global economy, FDI is crucial for maintaining market access in important economies.

Localization—the practice of shifting a company's management, operations, production, or marketing to local markets—has become an in vogue international business strategy. Nearly all the investors we surveyed say that they are localizing or considering localizing some of their operations and that such strategies are increasing their dependence on FDI. Indeed, this approach makes good sense in a global environment characterized by an expanding economy and uncertain politics. By investing in local products, supply chains, marketing, IT, and other business practices within countries, investors can better avoid the pain of sudden trade and market disruptions. Such investment also cultivates the support of local officials and communities that benefit from such economic activity.

FDI inflows, then, can be both a reflection of market openness and a response to market restrictions. Regardless of the rationale for investing in an economy, however, FDI boosts economic activity and employment prospects in the host economy. This in turn creates greater incentives to liberalize regulations and mitigates socioeconomic conditions that drive politicians to embrace protectionism. Corporate decisions to expand FDI as the antidote to the political challenges they face may, therefore, eventually decrease the populism and islandization we currently see and shift the long arc of history back toward globalization.

In the meantime, investors will continue to face a volatile global operating environment. Our FDI Confidence Index indicates that the countries offering regulatory transparency, security, large markets, and strong economic growth will have an edge as investors seek safe havens from economic and political conflict.

As always, we welcome your views regarding the Index 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 sixth year in a row.** The continued attractiveness of the United States to foreign investors is likely a result of its large domestic market, improving economic performance, and new lower corporate tax rate. The government's protectionist rhetoric and actions may also be motivating some companies to invest in the United States to maintain market access.
- **There are significant shifts among the leading destinations for FDI.** The top five countries on the Index have not changed in the past three years, but their relative positions have shifted. Most notably, Canada rises to second place this year, its highest-ever ranking in the Index, and China falls to the fifth position, its lowest-ever ranking in the Index. Germany also falls one spot to rank third, and the United Kingdom holds steady at fourth. While the top 10 likely destinations for FDI were the same in 2016 and 2017, there is a change in the composition of the list this year: Switzerland and Italy enter the top 10 for the first time in more than a decade, edging out India and Singapore.
- **Investors are focused on opportunities in Europe.** European markets have attracted significant investor attention on the Index in recent years, and this year is no exception. In fact, Europe stages a bit of a comeback in 2018 after its share of positions on the Index had declined in the two previous years. All in all, European markets account for more than half of the total positions on this year's Index as well as half of the top 10. Furthermore, the three newcomers to the 2018 Index are all European markets: Denmark (20th), Portugal (22nd), and Norway (23rd).
- **Developed markets reassert their dominance as FDI destinations.**[1] After ceding some ground to emerging markets last year, developed markets reach a new all-time high of 84 percent of the positions on the 2018 Index. Investors are interested in developed markets across all regions, including Europe, North America, Asia, and Australasia. This growth is likely a result of stronger economic performance across developed market economies, their competitive advantages in technological innovation, and the regulatory and competitive pressures to localize operations in core markets.
- **Investors are very bullish on the global economy.** Investors are more bullish on the global economy than they have been since 2014. Two-thirds of investors are more optimistic about the global economic outlook this year than they were last year. At the regional level, global investors are particularly optimistic about economic prospects in the Asia Pacific, Europe and Eurasia, and the Americas. In contrast, investors have mixed views on the outlook for the Middle East and North Africa and are somewhat pessimistic on sub-Saharan Africa, which may explain why these regions are not represented on the Index this year.
- **Political risks are still front of mind for investors.** An increase in geopolitical tensions tops investors' list of likely wildcards for the fourth year in a row. Investors also view the likelihood of a political crisis in an emerging market as higher than last year, which may be contributing to the fact that fewer emerging markets appear on this year's Index. And for the second year in a row, investors are prioritizing governance factors when choosing where to invest. They

[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.

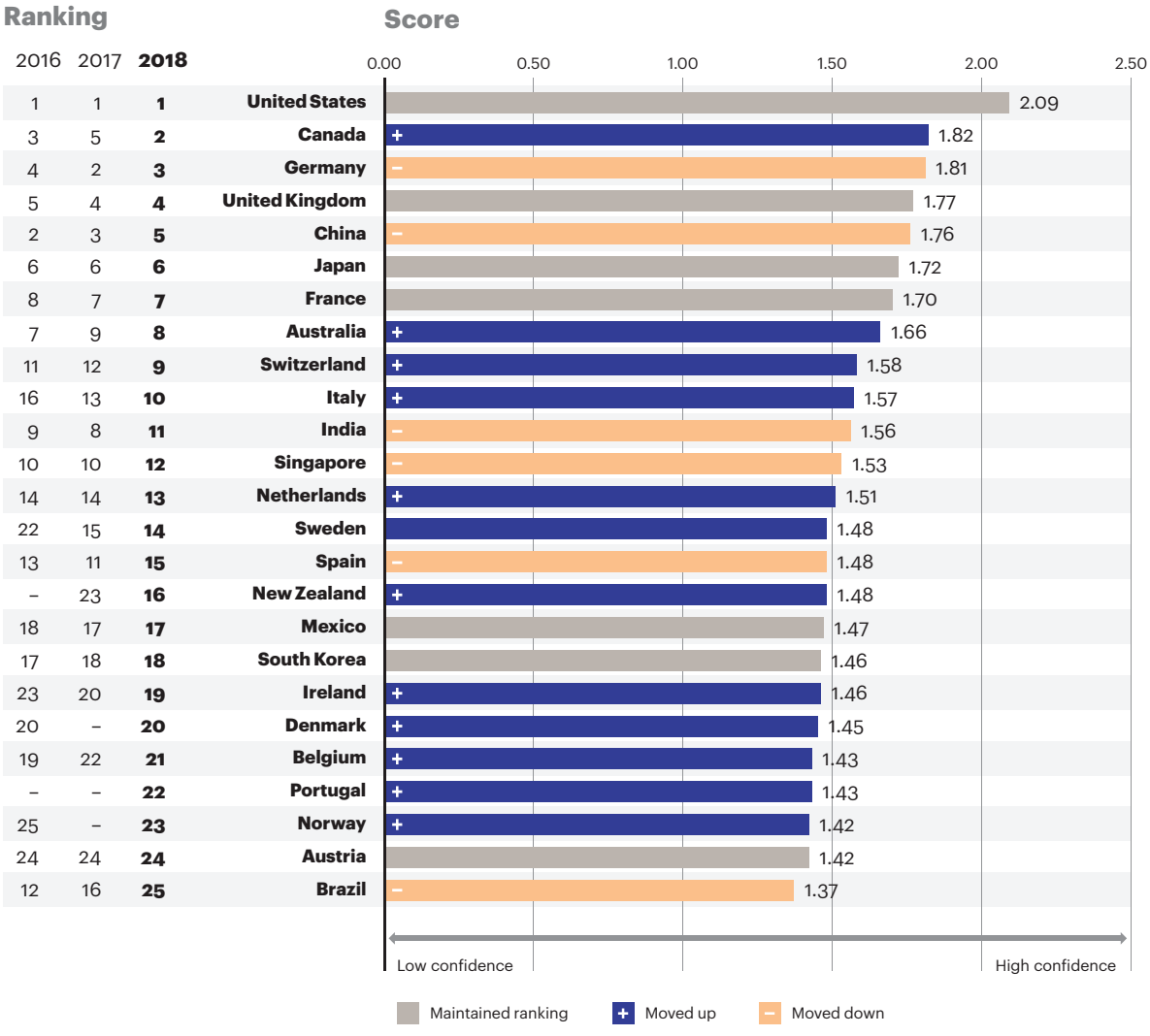
are particularly focused on regulatory transparency and corruption, tax rates and ease of payment, and the general security environment.

- **Localization strategies are driving greater FDI.** An overwhelming 80 percent of investors believe FDI will become more important for corporate profitability and competitiveness in the next three years. One reason for this consensus appears to be that almost 90 percent of companies are pursuing or considering pursuing localization strategies, and almost three-quarters of these companies are increasing their reliance on FDI as a result of localizing. As highlighted in this publication in recent years, FDI is seen as a business strategy intended to mitigate the effects of populism, protectionism, and the "islandization" of the global economy.
- **Changes to the North American Free Trade Agreement (NAFTA) would shake up FDI flows.** Fully 95 percent of investors' companies conduct business in North America, and the renegotiation or termination of NAFTA would reshape FDI patterns. While modernizing NAFTA's digital trade provisions would have the most positive net effect on FDI flows to member companies, terminating NAFTA would have the least positive net effect on FDI flows. Moreover, 60 percent of investors report that terminating NAFTA would raise their company's cost of operations.

The 2018 Foreign Direct Investment Confidence Index

The United States tops the A.T. Kearney Foreign Direct Investment (FDI) Confidence Index for the sixth year in a row (see figure 1).[2] This enduring attractiveness is likely in large part because the United States is the largest market in the world and because the country's economy is on a pronounced upswing. The recent corporate tax rate cut likely also increases the appeal of investing in the United States in the near to medium term. And, as we highlighted last year, investors may be reacting in part to the government's recent protectionist stances. FDI remains a crucial means for them to maintain access to this globally important market.

Figure 1
2018 A.T. Kearney FDI Confidence Index®



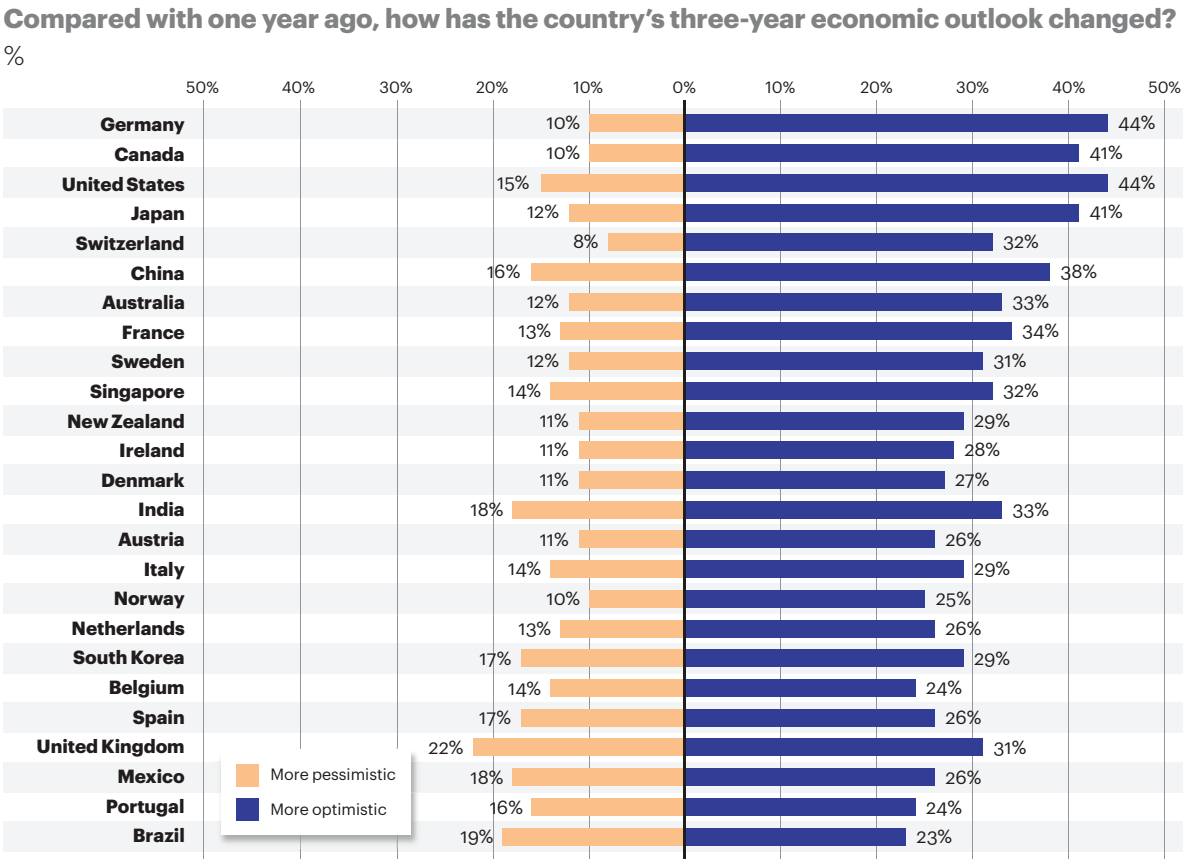
Note: Values are calculated on a 0 to 3 scale, with 3 being the highest level of confidence in a market as a future destination for FDI.
Sources: A.T. Kearney Foreign Direct Investment Confidence Index (2016, 2017, 2018)

[2] The Index is calculated as a weighted average of the number of high, medium, and low responses to questions regarding the likelihood of making a direct investment in a market over the next three years. For information on the methodology and history of the FDI Confidence Index, see in the appendix on page 36.

More broadly, all of North America performs well on the FDI Confidence Index this year. Canada rises three spots to second place—its strongest performance in the history of the Index. This extends Canada's streak among the top five markets on the Index to six years. Furthermore, investors are very optimistic about Canada's economic prospects, reporting greater net optimism for Canada than for the United States (see figure 2). Mexico is another strong performer, holding steady at 17th, even as all other emerging markets fall in the rankings.

Figure 2

Optimism is high for most large developed markets, except the United Kingdom



Note: Countries are listed in descending order of the net score (more optimistic to more pessimistic).
Source: 2018 A.T. Kearney Foreign Direct Investment Confidence Index

China falls three spots to fifth place—China's lowest ranking in the history of the Index. As investors remain relatively optimistic about the economy, these reduced FDI intentions may be a result of the perception that the business environment is becoming less favorable for foreign firms. The remaining two markets in the top five are large European economies: Germany falls one spot to third, and the United Kingdom holds steady in fourth place.

Beyond the top five, Europe also performs well. European markets account for half of the countries in the top 10 and more than half in the top 25 markets on the Index. This reflects substantial investor interest in establishing or expanding business operations in Europe. Furthermore, the number of European countries on the 2018 Index increases from 11 spots last year to 14—just shy of the region's all-time high of 15 spots on the 2015 Index. In particular, France,

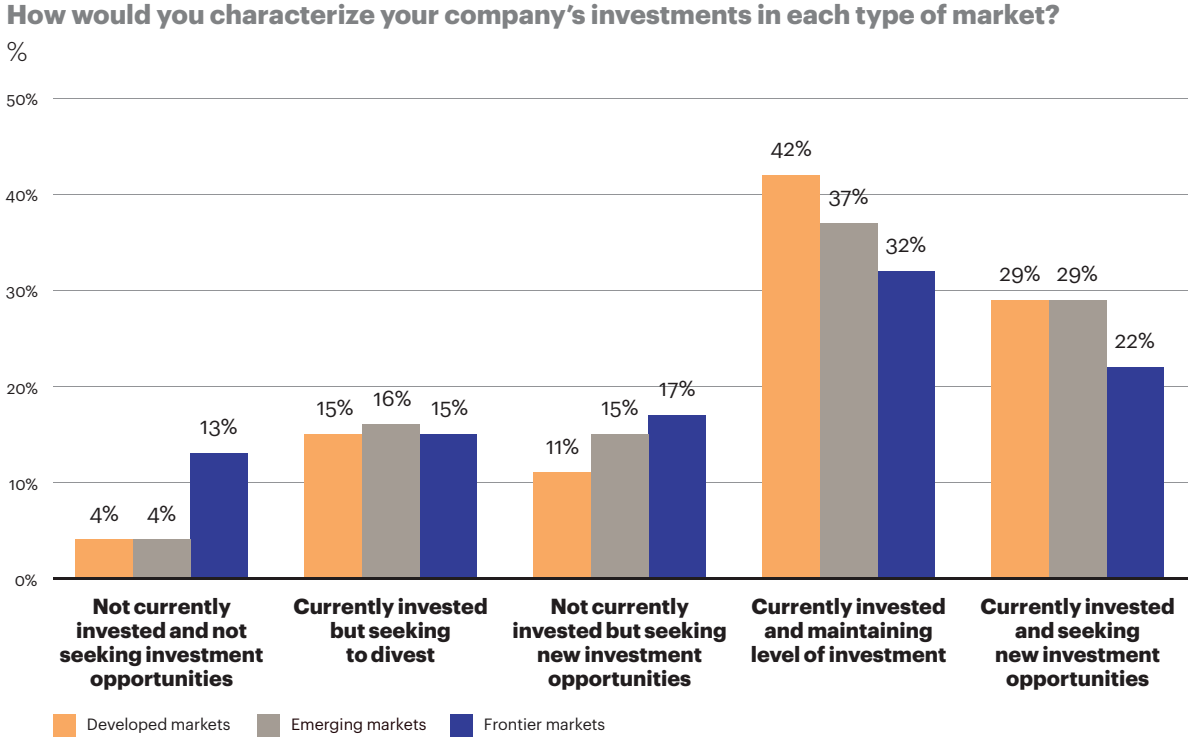
Switzerland, and Italy are in the top 10, and the latter two of these countries each rise by a strong three spots. Moreover, all three of the newcomers this year are European countries: Denmark, Portugal, and Norway. This widespread intention to invest in Europe may be related to the region's economic upswing after several years of subpar economic performance. In addition, as in last year's Index, the looming reality of Brexit may be motivating some investor interest in the rest of the European Union (EU) member economies as companies seek to maintain their preferential access to the EU market.

Notably, all European countries on the Index are developed markets, as has been the case since 2016. This dominance of developed markets in Europe mirrors the dominance of developed markets more broadly on the Index since 2014. After a slight dip in investors' focus on developed markets in last year's Index, developed markets stage a resurgence to capture 84 percent of the top 25 spots this year—an all-time high. Developed markets are likely attracting such significant investor interest thanks to the synchronous upswing in economic growth across these markets—particularly in Europe—and their long-term favorable fundamentals, such as relatively transparent business regulations and high purchasing power.

The flip side is that this year marks an all-time low for the share of emerging markets on the Index. Just four emerging markets appear among the top 25 countries for FDI intentions: China, India, Mexico, and Brazil. This suggests that confidence in investing in specific emerging markets has declined. However, investor interest in emerging markets writ large remains strong. While 44 percent of investors report that they are seeking to increase their investments in emerging markets, only 40 percent are seeking to do the same in developed markets and 39 percent in frontier markets (see figure 3). Investor intentions, then, may be

Figure 3

Most investors plan to maintain or increase investments in all types of markets



Source: 2018 A.T. Kearney Foreign Direct Investment Confidence Index

spread more widely across the emerging market space, resulting in fewer individual emerging markets appearing on the Index.

In fact, the three countries that appeared on the 2017 Index but do not appear this year are all emerging markets: Thailand, the United Arab Emirates, and South Africa. And two of the three countries with the largest drops in rank are also emerging markets. Brazil, the country with the most significant drop, falls nine spots, continuing its three-year slide from sixth in 2015 to 25th in 2018. India falls by three spots, reversing its two-year streak of rising in the rankings. And among developed markets, Spain suffers the largest drop, falling four spots to rank 15th.

> Our findings indicate that investors are uncertain about where to invest—beyond the largest, most obvious locations with the lowest perceived risks—even as they plan to increase their level of FDI.

In contrast, the newcomers are all developed markets and, as previously noted, are all European countries. Denmark returns to the top 25 after a one-year absence, and Norway reappears after a two-year absence. And Portugal makes its debut appearance on the Index. In addition, the four countries with the largest jumps in rank are all developed markets. New Zealand makes the most substantial leap in rank, surging by seven spots to 16th. Three other developed markets rise by a notable three spots: Canada, Switzerland, and Italy.

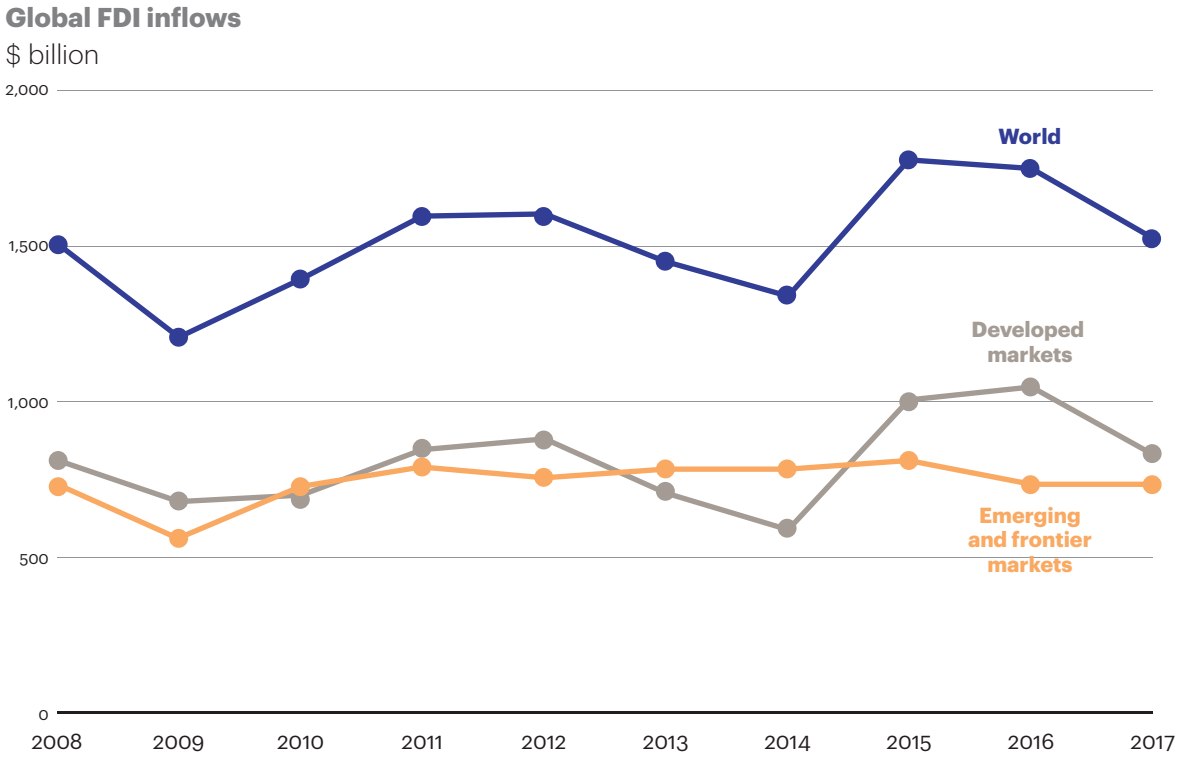
Across the board, the overall level of scores in this year's Index indicates slightly more uncertainty about where to invest. The average score of countries in the Index falls to 1.58 this year, between the 2016 average of 1.56 and the 2017 average of 1.61. While the share of high likelihood scores remains the same this year, investors identify fewer countries where they foresee a medium or low likelihood of investing in the next three years, and the share of no likelihood responses rises. There is also a larger gap between the highest and lowest scores among the top 25 this year. Altogether, these findings indicate that investors are uncertain about where to invest—beyond the largest, most obvious locations with the lowest perceived risks—even as they plan to increase their level of FDI. This uncertainty may explain the discrepancy in investors' strong FDI intentions and declining FDI flows in recent years.

Lower 2017 FDI Flows May Mark a Return to Normalcy

Last year, an overwhelming three-quarters of investors reported that they were planning to increase their level of FDI over the medium term. Despite these intentions, however, the global flow of FDI fell in 2017 for the second year in a row, according to the latest United Nations

Conference on Trade and Development (UNCTAD) estimates (see figure 4). While the decline in 2016 was relatively small and driven by a reduction in flows to emerging and frontier markets, the decline in 2017 was much more significant and driven by a dramatic reduction in flows to developed markets. In fact, the decline in FDI flows last year was largely a result of lower FDI inflows to just two markets: the United Kingdom and the United States. It is important to note, however, that a few large megadeals resulted in abnormally high FDI inflows in 2016 for the United Kingdom and in 2015 and 2016 for the United States. The level of FDI flowing to developed markets in 2017, then, may represent a return to normalcy.

Figure 4
Lower FDI in 2017 was driven by a drop in flows to developed markets



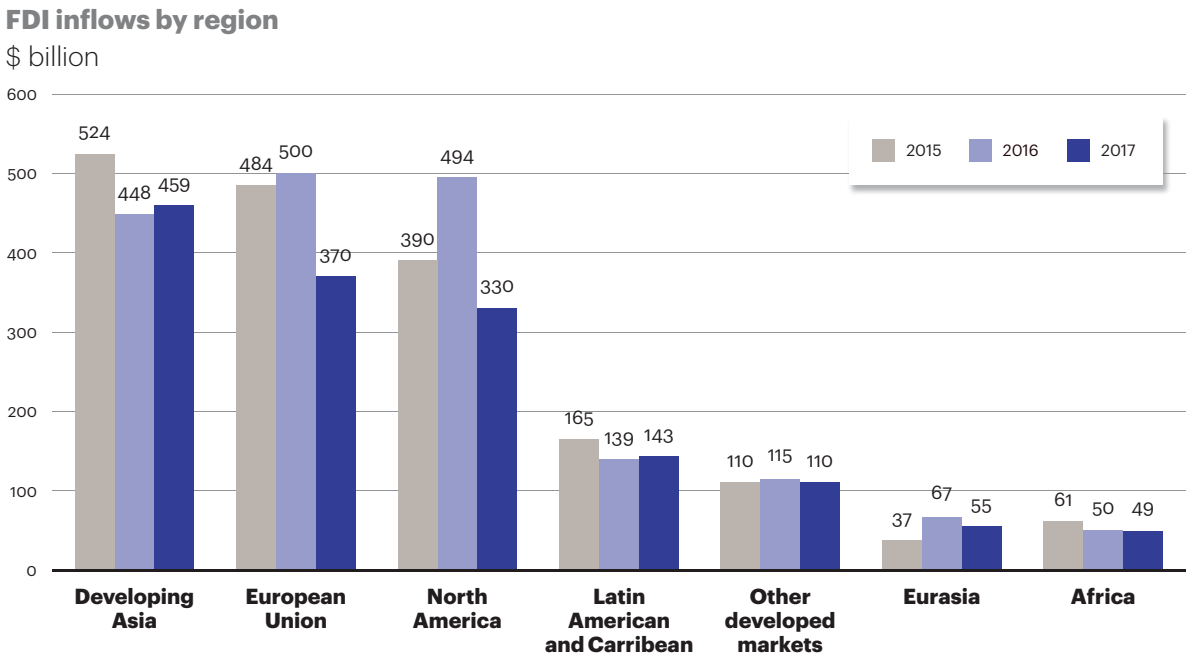
Note: Figures for 2017 are preliminary estimates.
Sources: United Nations Conference on Trade and Development; A.T. Kearney analysis

This same observation applies at the global level. When the anomalous years of 2015 and 2016 are discounted, it becomes clear that the 2017 FDI flows represent a slight improvement from 2013 and 2014. Furthermore, these 2017 FDI flows show a return of the rough equivalence in the value of FDI flowing to developed markets versus emerging and frontier markets that has existed throughout most of the post-global financial crisis period.

Viewed in this light, the discrepancy between investors' high level of intentions to increase FDI and the fall in FDI flows last year is less troubling. It may be that many companies did increase their FDI levels—or are doing so now—but the reduction in megadeals in large developed markets masked this activity. Or it may be that with so many companies seeking to increase their level of FDI, there were fewer M&A targets and greenfield projects to go around, dampening companies' investment opportunities and resulting in lower than intended levels of FDI.

Despite these differences in overall FDI flows in 2017, the top three regional destinations for global FDI flows remain constant (see figure 5). Developing Asia was once again the region attracting the most FDI flows in 2017, after Europe and North America had edged past it in 2016. And consistent with global-level data, all developed market regions experienced a decline in FDI flows in 2017. The emerging and frontier market regions of Eurasia and Africa also received slightly less in FDI flows last year than in the previous year. The two regions to buck the trend were developing Asia and Latin America and the Caribbean. Our survey results indicate that these two emerging and frontier market regions will likely continue to attract FDI flows, as the only emerging markets on the 2018 Index are in Asia and Latin America.

Figure 5
The top destinations for global FDI are relatively consistent



Note: Figures for 2017 are preliminary estimates. These regional groupings are the only ones for which the United Nations Conference on Trade and Development provided data in its 2017 estimates.

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

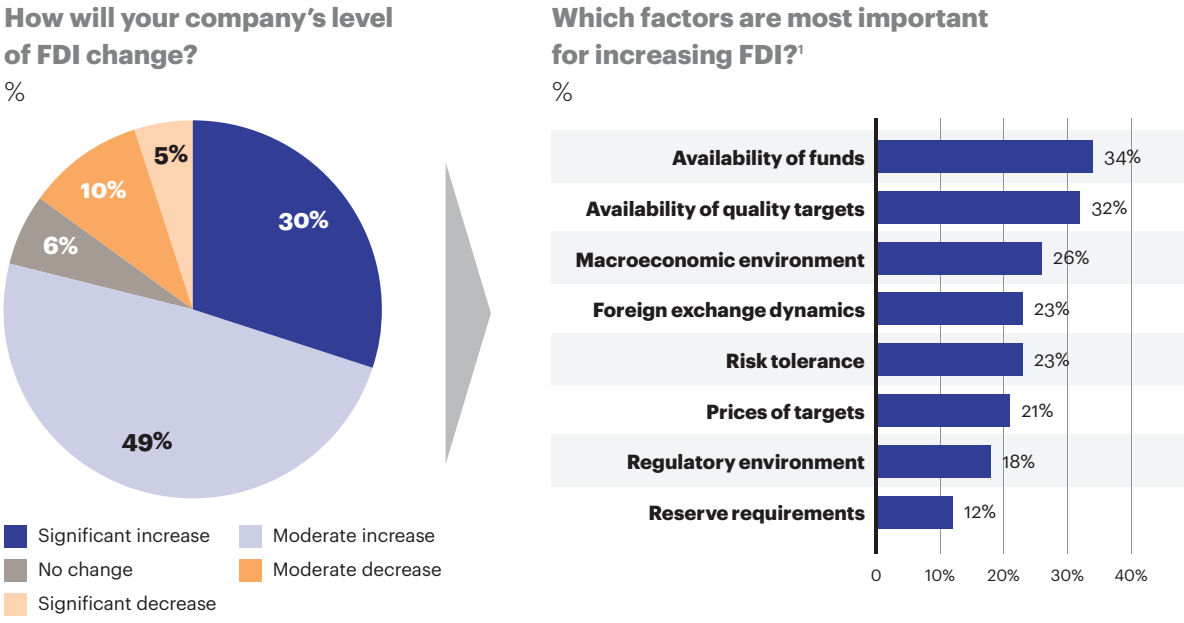
Investors Plan to Increase FDI—Albeit Carefully

This year's Index indicates that FDI flows should remain strong. In fact, 79 percent of investors plan to increase their FDI in the next three years, representing the highest share registered in recent years (see figure 6 on page 9). While investors across all regions and sectors demonstrate strong intentions to increase FDI levels, plans to pursue more FDI are particularly robust, as was the case last year, among investors based in Asia (87 percent) and those in the information technology (IT) sector (86 percent).[3] This finding should come as no surprise. Asia remains the world's fastest-growing regional economy and is pursuing greater economic integration, as evidenced by the recent signing of the Comprehensive and Progressive Agreement for

[3] 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.

Figure 6

Most investors plan to increase FDI, primarily driven by the availability of funds and targets



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

Source: 2018 A.T. Kearney Foreign Direct Investment Confidence Index

Trans-Pacific Partnership (CPTPP) by seven countries in Asia and Australasia and four countries in the Americas. In addition, the IT sector is the source of much deal-making activity as investors seek to position their companies to compete in the 21st-century digital economy.

The reported reasons for such bullishness on FDI shift slightly this year, with the availability of funds rising in importance. Available funding may be related to high stock valuations, as all major global equity markets were up over the previous year at the time the survey was conducted. At the same time, although the US Federal Reserve has started to raise interest rates, the global cost of capital remains relatively low. Investors also cite the availability of quality targets and the macroeconomic environment as important reasons for increasing FDI levels in the coming years. The latter is certainly understandable, as the global economy is enjoying a synchronous upswing among both emerging and developed markets for the first time since the global financial crisis. Despite this optimism, only 23 percent of investors planning to increase FDI point to higher risk tolerance as a reason for doing so, down from 27 percent last year. This risk-aversion could, in part, explain the low representation of emerging markets on this year's Index.

Regardless of their reasons for increasing FDI, investors agree that FDI is essential for business growth. An overwhelming 80 percent of investors believe that FDI will become more important for profitability and competitiveness in the coming years. This figure is up from an already high 75 percent of investors who said the same last year. As has been the case in recent years, this emphasis on FDI seems to stem from the strong macroeconomic environment on one hand and the heightened political risk environment (especially populist and protectionist policy shifts) on the other hand. The elevated importance of FDI also appears to be driven by investors' pursuit of localization business strategies (see Localization Drives Greater FDI Flows on page 15).

The continued prevalence of governance and regulatory factors in determining where to make investments is likely related to this elevated level of political risk. As was the case last year, three of the top four factors that investors consider in their FDI decisions relate to regulations and governance (see figure 7). The most important factor this year is regulatory transparency and lack of corruption, closely followed by tax rates and ease of tax payment. Given the high-profile corruption scandals in major emerging markets—such as South Africa, Brazil, and Malaysia—it is not surprising that investors are concerned about this issue. And the focus on taxes is likely related to recent moves by several countries, most notably by the United States, to make their corporate tax rates more internationally competitive. Investors also continue to place a strong emphasis on the security environment, perhaps in part because of their perception of a high likelihood of escalating geopolitical tensions (see Investors See Three Primary Wild-Card Risks on page 13).

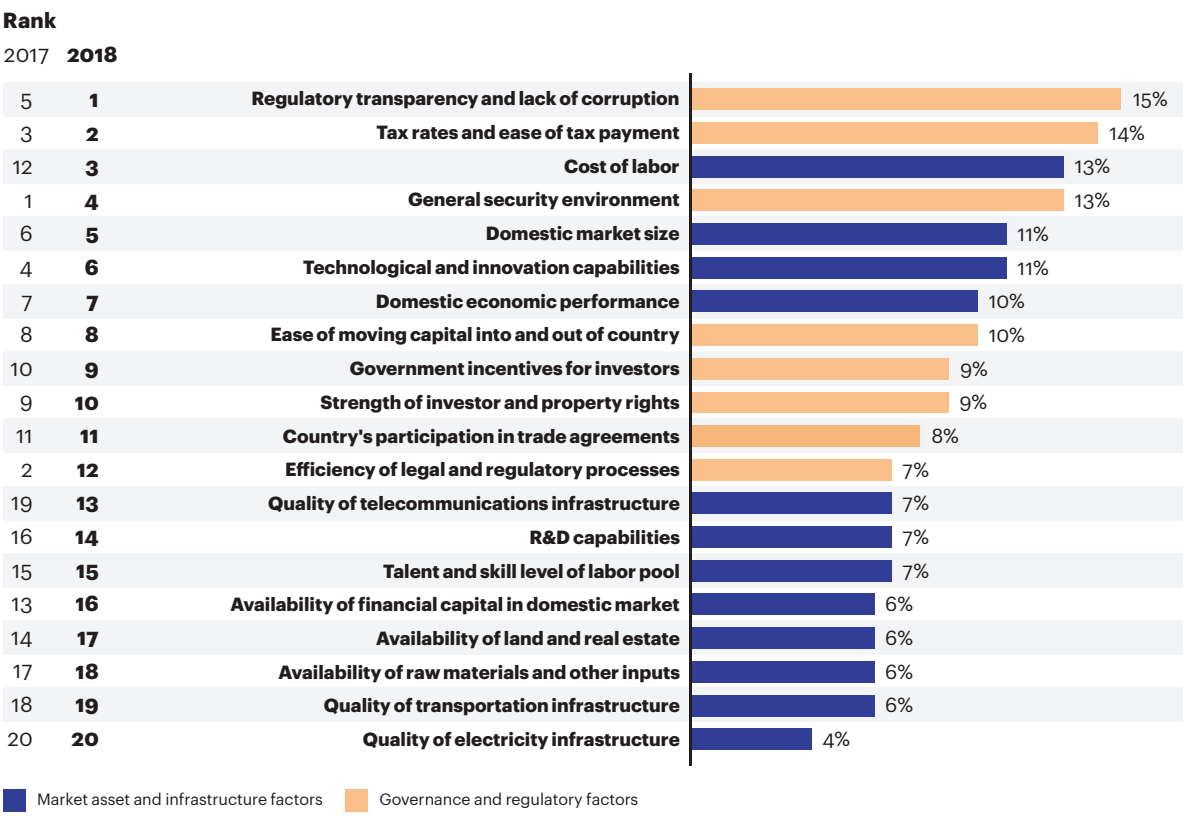
Among market asset factors, the cost of labor is the most important issue that investors are considering in their FDI decisions this year. While only 9 percent of investors indicated that labor costs were among their top two factors for choosing where to invest last year, 13 percent identify this factor this year—the most dramatic rise in importance among the factors in our survey. This increase may be driven in part by the global labor market tipping point that we

Figure 7

Regulatory factors are still top of mind, but cost of labor made the largest jump in importance

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

%



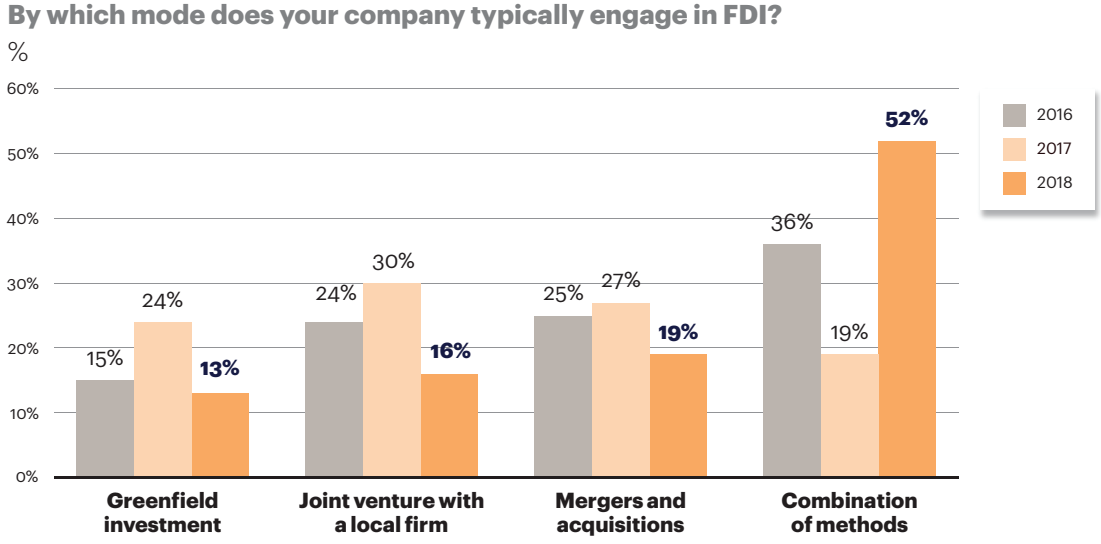
Note: Percentages do not add to 100 because respondents could select two choices.
Sources: A.T. Kearney Foreign Direct Investment Confidence Index (2017 and 2018)

highlighted in Global Trends 2016–2021. The global labor force has stopped growing as a share of the total population because of the aging population and declining workforce participation rates, and the labor market is less globalized than in the past thanks to rising restrictions on immigration. These forces are likely to push up labor costs in a variety of markets. Investors based in the Americas—in which the United States is the largest respondent country—are paying the most attention to labor costs when making FDI decisions. This is likely a result of more restrictive US immigration policies and a tightening US labor market in which unemployment is at a multi-year low.

> A one-size-fits-all FDI strategy will not work in markets that are often characterized by idiosyncratic political risks and distinct policy frameworks.

The mode, or specific investment vehicle, of FDI that investors are planning to use has also shifted. Last year, more than four-fifths of investors specified one mode by which their company typically engaged in FDI. In contrast, fewer than half specify a single mode this year, and 52 percent report that their company typically engages in a combination of FDI methods (see figure 8). This change likely reflects a view that a one-size-fits-all FDI strategy will not work in an environment in which markets are often characterized by idiosyncratic political risks and distinct policy frameworks. Furthermore, as a greater share of companies seek to increase their level of FDI, it will become more important to customize the modes by which they enter and expand in different markets.

Figure 8
Investors are much more likely to pursue a combination of FDI methods this year



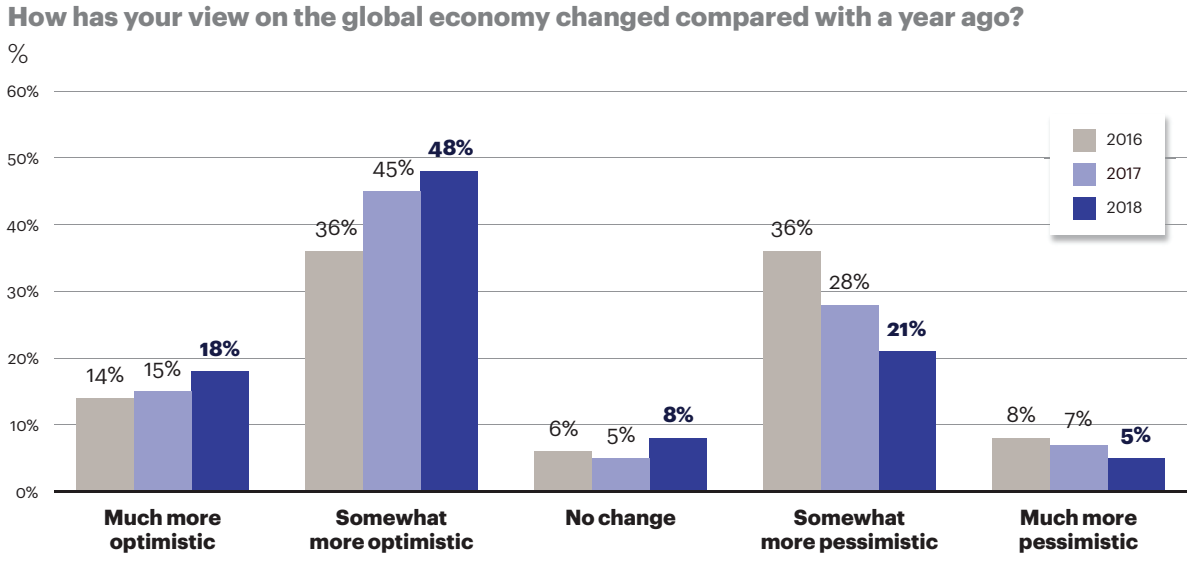
Sources: A.T. Kearney Foreign Direct Investment Confidence Index (2016, 2017, 2018)

A Bullish Macroeconomic Outlook with Pockets of Weakness

Investors are very bullish on the global economy. Two-thirds of investors are more optimistic about the global economy this year than they were last year (see figure 9). This is a significant shift from the 60 percent of investors expressing optimism last year, and it is the most bullish macroeconomic sentiment among investors responding to our survey since 2014. This optimism appears to be well-founded, as the International Monetary Fund (IMF) and other major economic forecasting units expect a more rapidly expanding global economy this year and in subsequent years.

Figure 9

Investors are more bullish on the global economy than in recent years



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

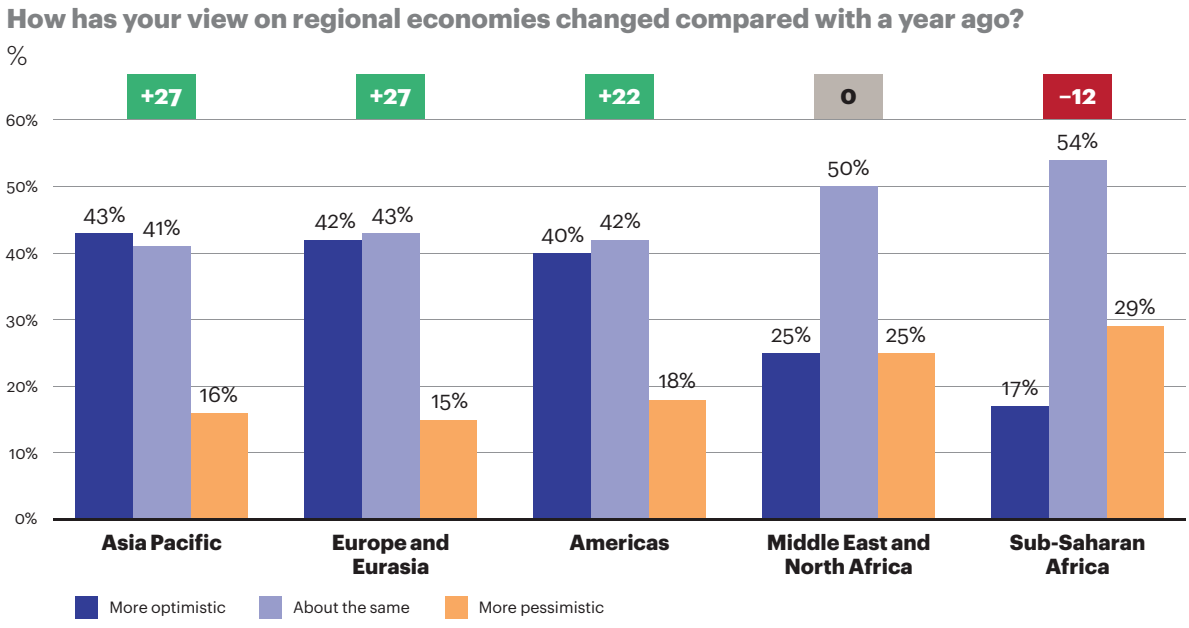
Interestingly, the level of global economic optimism among investors diverges in different sectors. Investors in the industry and IT sectors are very bullish, with 73 and 72 percent of investors respectively, more optimistic this year. In contrast, only 58 percent of investors in the services sector are more optimistic about the global economy. This discrepancy may be a result of the stagnation in global trade in services in recent years after several years of robust growth and the uncertain outlook because of the lack of momentum on international agreements to liberalize services trade. More restrictive immigration policies in key markets may also be dampening service-sector optimism. Finally, these lower levels of macroeconomic optimism among service-sector investors may also be the result of the heavy weight of investors in the financial services sector among these respondents. Despite strong financial sector performance in recent years, investors in the financial services sector are likely keenly aware of the growing macroeconomic risks stemming from elevated global debt levels and rising interest rates.

Among investors globally, there is also divergence in the outlook for regional economies. Investors are most positive about the economic outlook for the Asia Pacific and Europe and

Eurasia regions (see figure 10). There is also strong economic optimism for the Americas region this year. While investors' beliefs about the Middle East and North Africa economy are split, these results represent an improvement from last year when more investors were pessimistic than optimistic about this region. As has been true in the past several years, investors are most pessimistic about the economic outlook for sub-Saharan Africa. It is likely no coincidence that the two regional economies about which investors are least optimistic are those that are most dependent on commodity exports. Although global commodity prices are rising, they remain low relative to recent years. It will take time for commodity-dependent economies to return to robust growth.

Figure 10

Investors are much more optimistic about Asia Pacific and Europe and Eurasia this year



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

Source: 2018 A.T. Kearney Foreign Direct Investment Confidence Index

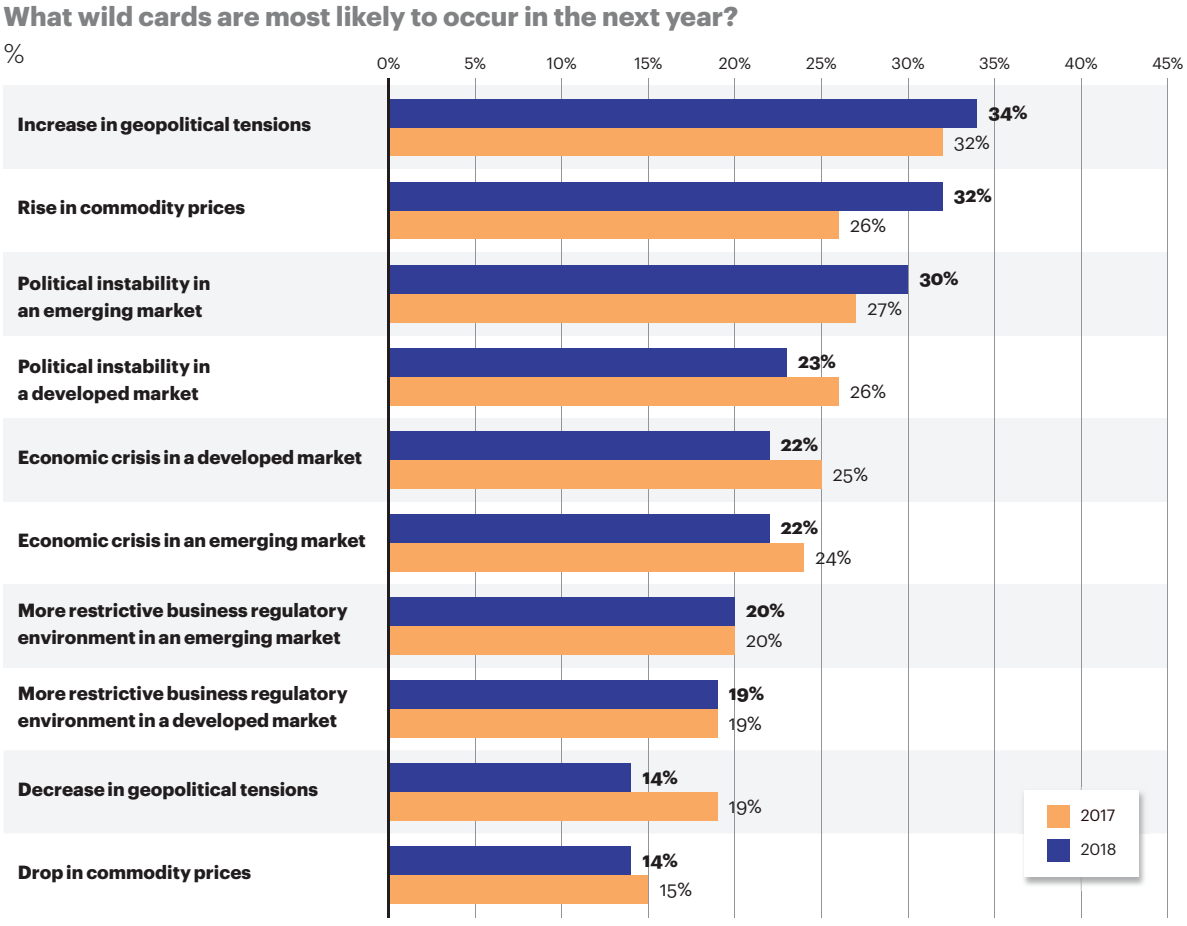
Investors See Three Primary Wild-Card Risks

A rise in commodity prices is, in fact, the wild card that saw the greatest jump in investors' perceived likelihood of occurring this year (see figure 11 on page 14). Thirty-two percent of investors believe that commodity prices are likely to increase in 2018, compared with just 26 percent who held that view last year. Rising commodity prices are also investors' second-highest probability wild card this year. While such a price rise would boost the economic performance of commodity exporters, it would negatively affect the current account balance of commodity importers. And the sectors that rely on commodity inputs would face higher costs, which might be passed along to consumers.

The wild card that saw the second-highest rise in perceived likelihood this year is political instability in an emerging market. It is also the wild card to which investors assign the third-highest probability of occurring this year. Domestic political risks are high in a variety of

Figure 11

Geopolitical tensions are again the top wild card, but the perceived likelihood of rising commodity prices increases



Note: Percentages do not add to 100 because respondents could select multiple choices.
Sources: A.T. Kearney Foreign Direct Investment Confidence Index (2017 and 2018)

emerging markets around the world. As a region, Latin America may top the list because six countries that account for 67 percent of the regional population will hold elections in 2018. Venezuela, the most notable among these, is mired in a multiyear political, economic, and humanitarian crisis. Elsewhere, investors are likely monitoring political risks associated with China abolishing presidential term limits and upcoming elections in India, among others.

An increase in geopolitical tensions is once again the wild-card risk that investors see as most likely to occur in the next year. This finding is not surprising given current events. Tensions continue to mount between Russia and the United States as well as between Russia and some Western European countries. At the same time, US–China relations appear to be souring, as a potential bilateral trade war looms and both the United States and the EU become less welcoming to Chinese FDI. China is also engaged in border disputes with India and several countries with territorial claims in the South China Sea. And perhaps rising above all of these tensions is the concern about North Korea's nuclear program. Most investors responded to our survey when risks related to North Korea were particularly high, prior to both the North's agreement to march with South Korea at the 2018 Winter Olympics and the announcement of the planned US–North Korean summit.

Localization Drives Greater FDI Flows

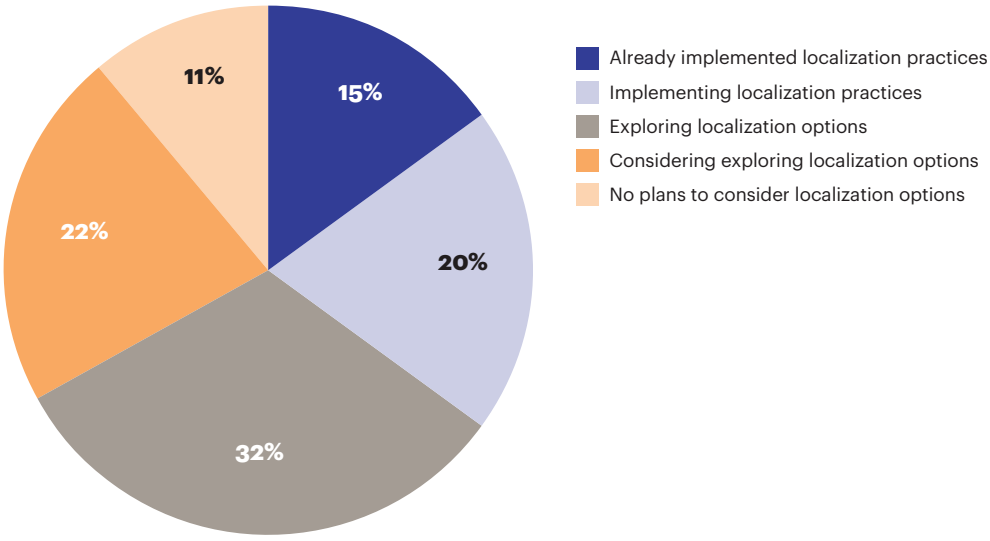
Amid rising geopolitical tensions, populist and protectionist policies in key markets, and the apparent consumer backlash against globalized products in favor of local ones, many companies are rethinking their global strategies. Rather than adopting a one-size-fits-all model of globalizing company operations and products, investors report that their companies are pursuing localization strategies. Localization—the practice of shifting a company's management, operations, production, or marketing to local markets—has become an in vogue international business strategy. In fact, 89 percent of investors say their company is pursuing or considering implementing localization practices (see figure 12).

Figure 12

Almost 90 percent of investors are pursuing localization or considering doing so

Is your company pursuing or considering pursuing localization practices?

%



Source: 2018 A.T. Kearney Foreign Direct Investment Confidence Index

The factors that influence companies' decisions to localize are diverse, and they include both regulatory and economic pressures. On the regulatory side of the ledger, more than one-third of investors whose companies are localizing or considering doing so cite localization requirements to gain market access—a government policy "stick"—as an important factor driving the decision. Another 29 percent of these investors point to the corresponding "carrot" of government investment incentives as an important reason to localize. In terms of market pressures, about one-third of investors cite lower costs as core to their company's decision to localize, and a similar share point to greater efficiencies associated with localization. Finally, competitive pressures from domestic firms motivate 30 percent of the companies that are pursuing or considering localization.

The methods by which companies are localizing are similarly diverse. About 40 percent of companies that are localizing or considering doing so are hiring local talent or setting up production or manufacturing facilities in local markets. And at least one-third of such investors point to product design and R&D, market entry through M&As or joint ventures,

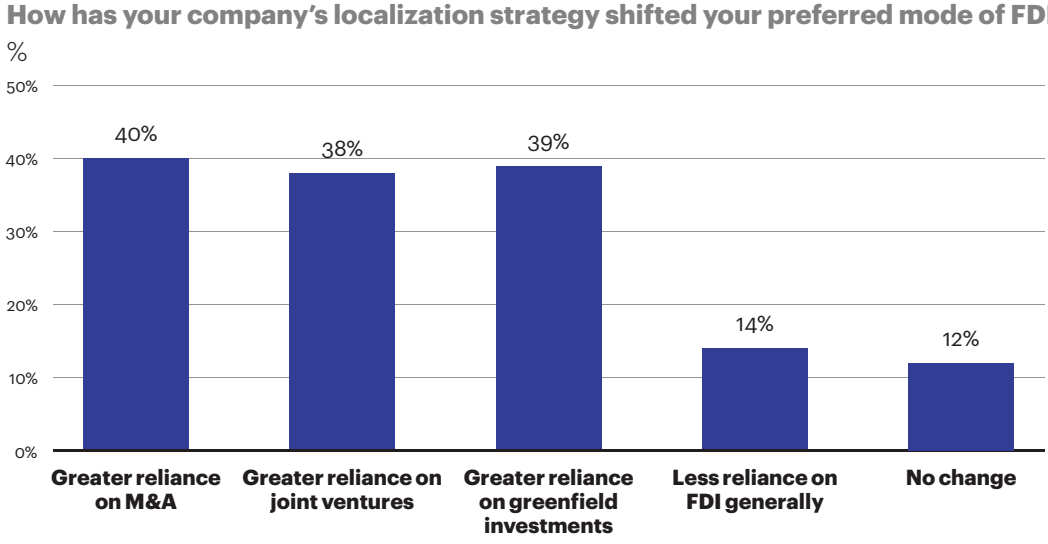
branding and marketing, and internal management as ways in which their companies are localizing. However, companies are not pushing just one localization strategy. Two-thirds of the investors that are localizing or considering localization tell us their companies are implementing two or more localization methods.

> An overwhelming 95 percent of investors conduct some business in North America. Changes to NAFTA would have profound effects on FDI flows and the global business environment.

The rise of localization as a leading business strategy is likely to generate greater FDI flows. Fully 74 percent of investors whose companies are pursuing or considering pursuing localization are relying more on FDI as a result (see figure 13). Localization, therefore, appears to be a central reason that investors see FDI as so important to profitability and competitiveness in the coming years.

The ongoing renegotiation of NAFTA serves as a consequential and contemporary case study of policy shifts driving localization decisions. An overwhelming 95 percent of investors told us that their company conducts some sort of business activity in North America. Changes to this free trade agreement (FTA) would therefore have profound effects on FDI flows and the broader global business environment.

Figure 13
Localization strategies are boosting companies' reliance on FDI



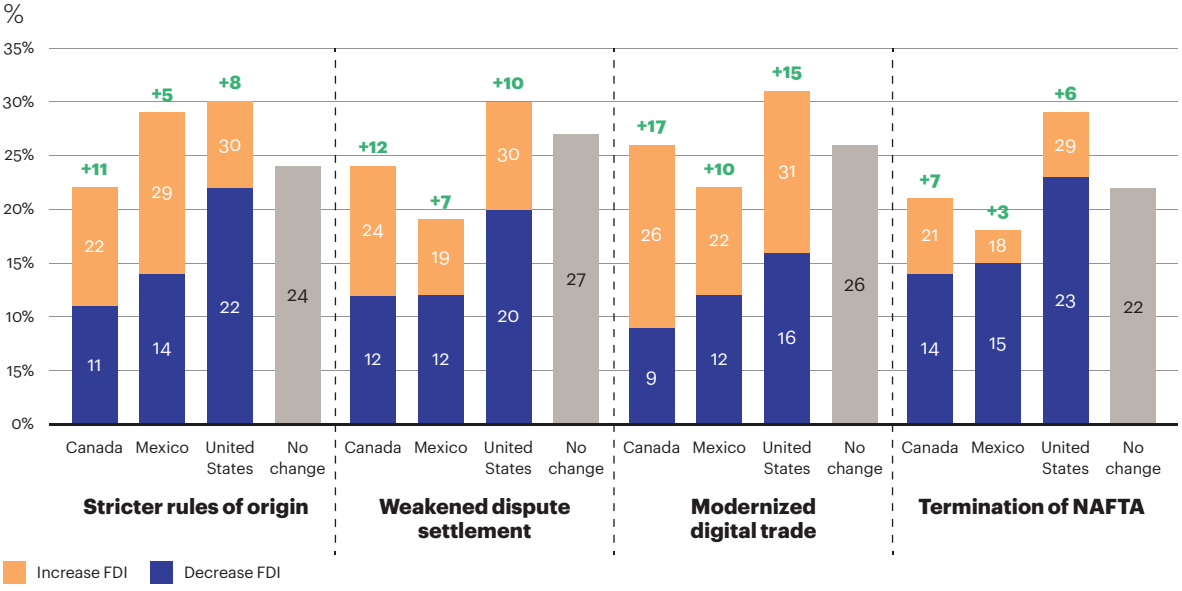
Note: This question was not asked of the 11 percent of respondents who are not implementing, exploring, or considering localization practices. Percentages do not add to 100 because respondents could select multiple choices.

Source: 2018 A.T. Kearney Foreign Direct Investment Confidence Index

Shifts in FDI flows would be particularly profound in North America. About 75 percent of investors say their company would shift its investments in North America if NAFTA were modified or terminated (see figure 14). These shifts involve both increases and decreases in companies' levels of FDI in each of the three NAFTA member economies. In each case, localization strategies appear to be a key driver, as the share of companies increasing FDI in each market is higher than those decreasing FDI. Interestingly, Canada is the net winner in terms of the share of companies increasing versus decreasing FDI in each of the four scenarios that we explored. This may be because of the country's business-friendly regulations, stable security environment, and continued pursuit of global economic integration through agreements such as the Canada–EU Comprehensive Economic and Trade Agreement and the CPTPP. It is also notable that modernizing NAFTA's digital trade provisions would have the highest net positive effect on FDI flows, while terminating NAFTA would have the lowest net positive effect.

Figure 14
Changes to NAFTA would create significant churn in FDI

To what extent would each proposed change to NAFTA affect your company's FDI decisions in North America?



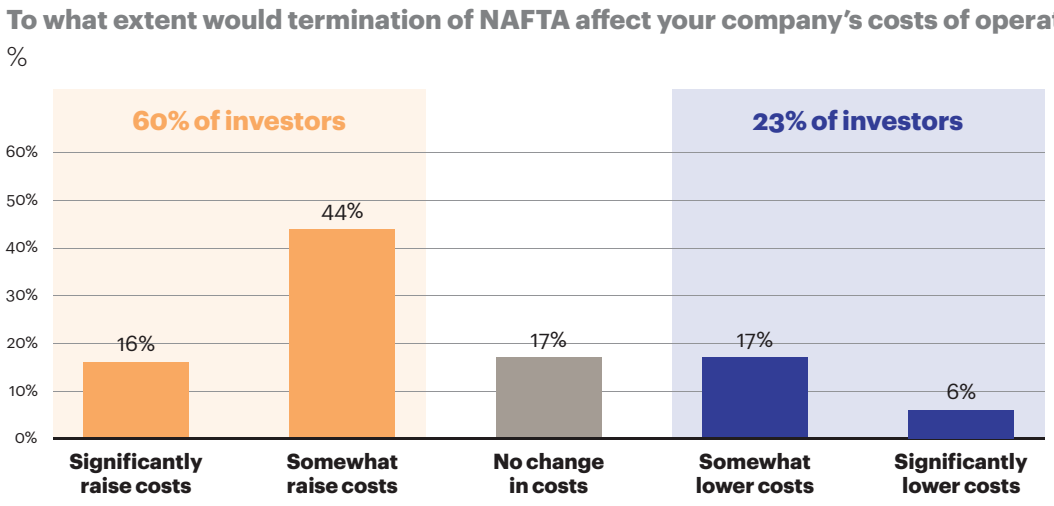
Note: The numbers above each column represent the net effect of the proposed change (investors responding "increase FDI" to investors responding "decrease FDI").

Source: 2018 A.T. Kearney Foreign Direct Investment Confidence Index

Simply put, changes to NAFTA would disrupt business operations. The level of churn that investors expect in FDI flows suggests that modifying or terminating NAFTA would lead to a significant rethinking of business strategies and operations in North America. Some companies and communities would benefit while others would suffer, but the recalibration to a new NAFTA reality would be disruptive and create uncertainty in the short term. And in the medium to long term, business costs would rise. In the most extreme scenario, the termination of NAFTA, 60 percent of investors say their company's cost of operations would increase (see figure 15 on page 18). This change would therefore present a significant challenge to companies that have become accustomed to operating under the open market conditions of the world's largest integrated trading bloc.

Figure 15

The termination of NAFTA would raise business costs



Source: 2018 A.T. Kearney Foreign Direct Investment Confidence Index

Regional Findings and Context

Americas

The Americas attracted almost one-third of global FDI flows in 2017, and Latin America was one of only two emerging market regions in which FDI increased. While flows to North America fell, the level of FDI to North America remains more than twice that flowing to South America. There is also a significant divergence in this year's Index rankings between North America and South America. The United States, Mexico, and Canada improve or hold steady on their performance from the previous year, while investor interest in South American markets declines. These intentions to invest in North America are consistent with broader investor interest in developed markets. It is also possible that potential changes to NAFTA may be encouraging more investors to localize operations to maintain market access, leading to greater investment in NAFTA member economies. South America's weaker showing, by contrast, may reflect investor concern over regulatory transparency and corruption in the region.

United States

The United States remains in the number-one position on the FDI Confidence Index for the sixth consecutive year. In addition, its score is higher this year than last year, indicating that investors are more confident in their intentions to invest in the US market. This continued confidence is likely a result of the market's large size, strong and sustained economic growth, and recent corporate tax cuts. The economy grew by 2.3 percent in 2017, and the IMF projects it will grow by 2.9 percent this year. Investors are similarly bullish, with 44 percent expressing optimism about the United States' three-year economic outlook.

The Trump administration's efforts to reduce regulations and simplify the tax code have likely made the United States even more appealing to investors. The new tax code, for instance, permits businesses to fully expense capital investments such as manufacturing equipment and new plants. However, some government policies are having the opposite effect.

Ongoing uncertainty about NAFTA negotiations increases the concern that the United States will withdraw from the agreement. This would result in new customs barriers that may raise operating costs and lower productivity, potentially deterring future investment. Additionally, the proposed strengthening of the Committee on Foreign Investment in the United States (CFIUS) could reduce the number of approved foreign acquisitions of US businesses based on national security concerns. Over the past year, CFIUS has already acted to block a few attempted Chinese acquisitions of US firms in the technology sector, such as Canyon Bridge Capital Partners' attempt to acquire Lattice Semiconductor Corporation and Broadcom's attempt to acquire Qualcomm.

Despite strong investor intentions to invest in the United States in last year's Index, UNCTAD estimates that FDI inflows fell by about 23 percent in 2017 to $311 billion. However, this is still the largest amount received by any country in the world and is more than $150 billion greater than FDI to China, the next highest recipient. Part of this reduction is the result of the lack of megadeals that had increased FDI inflows in recent years and the steep decline in FDI from offshore financial centers, according to UNCTAD. The top source countries of inward FDI to the United States continue to be large developed markets, particularly Canada, the United Kingdom, and Japan. The primary sectors receiving FDI, according to the US Bureau of Economic Analysis, are manufacturing, wholesale trade, and financial services.

Canada

Canada moves up three spots from last year to rank second—the country's highest ranking in the history of the Index. Canada's score also improved this year, with IT investors and those based in the Americas and Europe particularly confident about investing in Canada. These strong investor intentions may signal a rebound on the horizon. FDI inflows to Canada fell to an eight-year low of $26 billion in 2017, according to Statistics Canada. Much of the decline in FDI is a result of reduced investment in the oil and gas sector amid weak global demand for Canadian heavy crude oil.

Investors are also bullish about Canada's economic outlook, with 41 percent saying they are more optimistic this year. The economy strengthened significantly in 2017, expanding by 3 percent. As a result, Statistics Canada reports that unemployment declined to a 40-year low. However, the IMF forecasts more moderate 2.1 percent economic growth this year, and easy credit has led to an overheating of the housing market. Both household and corporate debt levels now exceed 100 percent of GDP. Additionally, greater trade tensions with its southern neighbor, both in NAFTA talks and over Canadian exports such as softwood lumber and dairy, could dampen Canada's outlook for FDI and economic growth.

Canada's government has taken several steps to improve the country's investment climate though, which should support greater FDI inflows. In mid-2017, the government updated the Investment Canada Act to raise the dollar-value threshold for national security reviews of foreign M&As, enabling more FDI to occur without such reviews. The government also announced the establishment of a new investment promotion authority, Invest Canada. It will coordinate with state and local authorities to make it easier to invest in Canada. The United States remains the largest source of FDI in Canada, though FDI from Europe is expected to rise thanks to the provisional implementation of the Canada–EU Comprehensive Economic and Trade Agreement. It establishes an "Investment Court System" to ease disputes and raises the investment review threshold for European investors. Notable recent European acquisitions include the merger of Misys Ltd. with Canadian D+H Corp, a financial services and tech company, and Nestlé's $2.3 billion purchase of Atrium Innovations, a vitamin manufacturer.

Mexico

Mexico ranks 17th for the second consecutive year, holding steady in the high teens for the third year in a row. Reflecting this continued investor interest, the Secretariat of Economy reported that FDI inflows increased by 11 percent to reach $29.7 billion in 2017. The IMF expects the Mexican economy to accelerate, growing by 2.3 percent in 2018 and 3.0 percent in 2019. However, investors continue to be somewhat bearish, with only 26 percent more optimistic about the economic outlook this year.

In recent years, the government has taken steps to improve Mexico's investment environment, including lifting price controls on fuel, privatizing its hydrocarbon sector, and establishing special economic zones. Such reforms have resulted in major deals, including American Tower Corporation's $500 million acquisition of fiber optic cable from SixSigma Networks Mexico SA de CV, and German energy producer DEA Deutsche Erdoel's $214 million purchase of onshore leases for the Ogarrio oil field from Pemex. However, the upcoming presidential election could result in challenges for investors. The leading candidate, Andrés Manuel López Obrador, has previously advocated for Mexico to turn away from global economic integration and has signaled he will seek a referendum on the privatization of the energy sector. These populist positions are likely gaining traction given the Trump administration's anti-Mexico rhetoric. Obrador's candidacy has also benefitted from corruption scandals plaguing several other presidential campaigns.

Increasingly tense trade and investment relations with the United States are also a risk to FDI inflows. The United States remains the predominant source of FDI into the country, accounting for 44 percent of flows in 2016, according to the Secretariat of Economy. Trump's efforts to promote a "Buy American" economic platform and lure production back from overseas operations may lead to reduced investment in Mexican businesses. This concern likely helps explain the Mexican government's attempt to broaden the country's international trade and investment relationships. Mexico has recently signed the CPTPP with Pacific Rim nations and is pursuing a new FTA with the EU to modernize and further liberalize their agreement.

Brazil

Brazil experiences the sharpest drop of any country on this year's Index, falling nine spots to 25th. This is the third consecutive year in which Brazil's position has declined. Investors are also the least optimistic about Brazil's economic outlook of any country on the Index. Nevertheless, Brazil continues its streak of being ranked among the top 25 countries for FDI throughout the history of the Index, demonstrating consistent investor interest in the market's potential.

Brazil's precipitous drop in the rankings is likely a result of lingering economic uncertainty and perceptions of political mismanagement. The impeachment of former President Dilma Rousseff and ongoing investigations into President Michel Temer and other major politicians as part of the "Operation Car Wash" corruption investigation continue to rock Brazil's political system. Tensions are likely to escalate as elections approach in October, although a new government could establish a welcome fresh start. Economically, Brazil appears to be improving. After a severe recession in 2015 and 2016, the IMF estimates that Brazil's economy returned to growth in 2017, and it looks set to grow by about 2 percent in 2018 and 2019.

Despite this economic and political instability, Brazil remains the largest economy in Latin America and therefore an important market for investors. In fact, UNCTAD estimates that FDI inflows to Brazil increased by 4 percent in 2017 to $60 billion and that Brazil was home to 90 percent of major foreign acquisitions in Latin America. In particular, China remains an active

investor in Brazil. China's State Grid Corp, a major state-owned electric utility, closed a nearly $4 billion deal to purchase a majority stake in CPFL Energia, Brazil's largest private power company. China's State Power Investment Corporation also paid the state of Minas Gerais $2.3 billion for the rights to operate a major hydroelectric dam in the country. There are signs that other international investors have also not been dissuaded by political and economic uncertainty, such as Boeing's pursuit of a majority stake in Embraer.

Europe

FDI flows to Europe in 2017 fell 27 percent to an estimated $397 billion, but the economic outlook for Europe in 2018 is robust, marked by stronger domestic and external demand in countries such as Germany, Italy, and the Netherlands. More than half of the countries on this year's Index are European, signaling an FDI comeback for the region after weaker results in 2016 and 2017. The three newcomers to the Index—Denmark, Portugal, and Norway—make this year's 14 European countries the second-largest group for the region in the history of the Index. Many countries in the region are reducing or reforming corporate tax rates as a way to remain competitive, though pressure among some EU countries to scrutinize acquisitions by foreign companies could have a dampening effect on FDI in the medium term. Overall, investors in our survey are quite bullish on their outlook for Europe in the year ahead, as 42 percent say they are more optimistic about the region's economy this year.

Germany

For the third consecutive year, Germany tops the list of European countries in the Index. This year, however, the country falls one spot to third. Germany maintains its rank of second among both investors in Europe—the leading source of investments in the country—and those in the services sector—the country's largest source of employment. Investors are also the most optimistic about Germany's three-year economic outlook compared with all other countries in the Index. Thanks in part to strong domestic consumption, Germany's GDP growth of 2.2 percent in 2017 exceeded the average rate of growth over the past decade by more than one percentage point, and unemployment is at a historic low.

Recent investment data and government policies show that Germany is at an inflection point for foreign investments. On one hand, FDI inflows to Germany in 2017 rebounded to 2015 levels, reaching an estimated $35 billion following a dip to $10 billion in 2016. On the other hand, the number of announced greenfield investments in Germany fell 27.6 percent between 2010 and 2016, the largest drop of any European country in this year's Index. This decrease could be in part attributed to the bureaucratic difficulties of starting a business in Germany, a process that is ranked 113th globally in the World Bank's *Doing Business 2018* report.

A key trend in Germany's inward FDI in recent years has been strong Chinese investor activity. However, the outlook for continued Chinese investment is murky. Chancellor Angela Merkel recently referred to foreign takeovers (namely those from China) in strategic sectors as a "huge challenge" and is considering plans to tighten the rules on foreign takeovers. The apprehension regarding these investments can be seen in the reaction to the recent acquisition by China's Geely of a $9 billion stake in Daimler, the owner of Mercedes-Benz. This caused specific concern over China's access to important automotive technology as the country pursues its Made in China 2025 policy. Large acquisitions from elsewhere have been somewhat less controversial, such as the $9.9 billion acquisition of Uniper SE, a German electric power generation company, by Finnish energy company Fortum Oyj.

United Kingdom

The United Kingdom maintains its rank of fourth for the second consecutive year, extending its streak in the top five to five years. This consistent performance contrasts with the country's decline in FDI inflows by an estimated 90 percent in 2017 because of the lack of large megadeals in that year. The number of announced greenfield investments also declined in 2015 and 2016, but the United Kingdom still accounts for 22 percent of greenfield investments in Europe, which is the largest share by a significant margin.

The United Kingdom maintains its rank of fourth for the second consecutive year, extending its streak in the top five to five years.

The rate of economic growth in the United Kingdom has been slower than expected, partly because of decreased productivity growth and the reduced consumer spending that resulted from the sharp fall in the value of the pound since the Brexit vote. The IMF projects GDP growth of 1.6 percent in 2018 and 1.5 percent in 2019, well below the average of about 2.2 percent for developed markets. Growing uncertainty surrounding the Brexit process also contributes to the country's weaker economic performance. Prime Minister Theresa May has sought to reassure businesses that there will be as little disruption as possible to the flow of goods and services post-Brexit, but she acknowledges that some loss of market access is inevitable. And with less than a year until the United Kingdom is scheduled to leave the EU, many corporations have announced plans to depart the UK market.

The UK services sector, which is responsible for 80 percent of the UK economy, attracts the most foreign investment interest. In early February 2018, Brussels warned asset managers operating in the United Kingdom that they would be at risk of losing access to the EU market once Brexit is concluded. T. Rowe Price subsequently announced it would begin pivoting operations from London to Luxembourg, but fintech continues to offer foreign investors opportunities in the United Kingdom. Though US bank Citigroup moved its EU hub to Frankfurt after the Brexit vote, the bank recently announced it would invest in a new innovation center in London to maintain access to the city's strong fintech culture. And Vantiv, a US-based payment processing provider, recently acquired Worldpay Group, another payments provider, for $11.7 billion.

France

France ranks seventh for the second consecutive year. The country is the world's fifth largest economy, and the second-largest consumer market in Europe. Foreign companies contribute 16 percent of the value added to the French economy, account for 30 percent of all French exports, and comprise about one-fifth of the workforce. According to Fortune Global 500, France is home to the largest concentration of company headquarters in Europe.

Since taking office in May 2017, President Emmanuel Macron has pursued a pro-market agenda and emerged as a leader within Europe. The government has encouraged foreign investments, and we are starting to see a positive impact. The technology sector, for example, is gaining

momentum thanks to strong engineering schools, a €10 billion federal fund to spur innovation, and a newly launched French Tech Visa to attract more international talent to the country's emerging start-up scene. Consequently, Facebook recently announced it will invest an additional €10 million in its artificial intelligence (AI) center in Paris. The government is also pursuing broader pro-business reforms, including modernizing employment laws, reducing the corporate tax rate to 25 percent by 2022, and eliminating bureaucratic red tape. The Paris city administration also launched the Choose Paris initiative to seize any opportunities arising from Brexit. Yet Macron has strongly advocated for protecting strategic sectors within the EU, such as logistics, energy, and aerospace, urging the bloc to increase its level of scrutiny on foreign investments.

European investors in this year's survey ranked France third overall, suggesting that recent investment trends will continue. According to the Organisation for Economic Co-operation and Development (OECD), in 2016, six of the seven countries investing more than $1 billion in France were European: the Netherlands, Luxembourg, Belgium, United Kingdom, Switzerland, and Germany. The United States was the sole outlier. Recent notable deals also demonstrate strong European investor interest in France. A UK-based oil and gas company, Neptune Oil, acquired ENGIE E&P International for $3.9 billion, and Swiss pharmaceutical company Novartis acquired Advanced Accelerator Applications, a radiopharmaceutical company, in a transaction also valued at $3.9 billion.

Switzerland

Switzerland lands in the top 10 this year by jumping three spots to ninth. This strong showing indicates that FDI inflows into Switzerland may rebound after declining from $48 billion in 2016 to an estimated $28 billion in 2017. Despite this decline, there were still a few large foreign acquisitions. In mid-2017, for example, Johnson & Johnson announced the completed acquisition of Actelion Pharmaceuticals for about $31 billion in cash.

According to the Swiss National Bank, 94 percent of FDI in 2016 flowed into Switzerland's services sector, and 89 percent originated in Europe. This dominance may shift in the coming years though, as confidence by investors in Asia is strengthening, and the strongest investor confidence in Switzerland is from the IT sector. The surge in investor confidence in the IT sector may stem from Switzerland's pioneering embrace of the global cryptocurrency craze. At a recent crypto finance conference, the Swiss economics minister announced the country hopes to become a "crypto-nation" open to this burgeoning industry. In February 2018, the Swiss Financial Market Supervisory Authority (FINMA) published initial coin offering guidelines to facilitate this policy.

Switzerland's entrepreneurial policy agenda reflects its consistently strong performance on several global business rankings, including the Global Innovation Index, the World Economic Forum's *Global Competitiveness Report*, and the *IMD World Competitiveness Rankings*. An especially attractive feature of the Swiss business environment is the country's strong labor talent pool, which investors ranked as the fifth most important factor (tied with R&D capabilities) when determining where to invest.

Italy

Italy makes another three-spot jump this year to 10th, with relatively even rankings across investor segments. The country's dramatic two-year rise into the top 10 puts Italy at its highest ranking in the Index since 2004. The IMF's economic outlook on Italy is mixed, at just 0.8 percent

growth this year, but the country has strong momentum in domestic demand, higher external demand, and the lowest jobless rate in more than five years.

The country was in the midst of a national election when the FDI Confidence Index survey was conducted. Investors were sanguine about the political uncertainty ahead of this election, as evidenced not only by Italy's strong performance on the Index, but also by the bond markets (typically most reactive to political risk) remaining largely unfazed in the weeks leading up to the vote. Even after the national-populist League and the anti-establishment Five Star Movement won the highest vote shares in the March 4 elections, markets did not react strongly, with bond yields continuing to remain low and the equity market rising.

It is possible that instead of political risk, foreign investors have their sights set on Italy's "Industria 4.0" initiative, a national plan for innovation launched in January 2017. The initiative puts an emphasis on manufacturing, and it returns industrial policy to the top of the government's agenda. According to the Italian minister of economic development, the plan offers support to improve competitiveness, digitize new processes, boost productivity, promote new skills, and ultimately attract more foreign investment. It seems the proposal is already taking effect. About 409 megawatts of new photovoltaic systems were installed in Italy in 2017, an increase of 11 percent from the previous year, and further expansion of these solar power systems is expected in 2018. Large-scale mergers and acquisitions are also adding excitement to the Italian investment climate, including the deal between Luxottica Group SpA, the Italian manufacturer of glasses and lenses, and Essilor International SA, its French counterpart, valued at more than $25 billion.

Netherlands

The Netherlands moves up one spot to 13th, following two consecutive years in the 14th spot. FDI inflows in 2017, however, declined to an estimated $68 billion, about the same amount as 2015, following a spike to $86 billion in 2016. Investor confidence varies quite significantly across regions and industries, with those based in Europe and in the services sector ranking the country much higher (eighth and ninth place, respectively) in terms of investment intentions.

According to the Netherlands Foreign Investment Agency (NFIA), two of the country's most impressive features for foreign investors are its infrastructure and tax structure. The country ranks first on DHL's *Global Connectedness Index*, with a second-place rank for infrastructure and a second-place rank for overall logistics performance. Moreover, investors enjoy a competitive corporate income tax rate, liberal carrying losses of up to nine years, R&D tax credits, tax relief for environmentally friendly and sustainable investments, special tax treatment on wages for expats, and a wide tax treaty network to avoid double taxation. The Dutch Parliament, however, is in the process of implementing reforms to "clean up its image" as a tax haven. This includes adding barriers for establishing a company without a physical presence in the country and a new royalties tax, effective in 2021. To help counter the potential downsides of these policies, the newly elected government is also proposing to reduce the corporate tax rate and eliminate the dividend tax.

The NFIA notes that the country's key industries are life sciences, agri-food, IT, chemicals, energy, and aerospace. Several high-profile deals were executed in these fields in 2017. For instance, Microsoft, in partnership with Vattenfall, recently announced a deal to operationalize a wind farm by 2019 in one of the country's largest wind energy deals. And French aerospace and defense company Thales agreed to purchase digital security solutions provider Gemalto for $6.5 billion, joining many of the world's leading aerospace companies in operating in the Netherlands.

Spain

Following a three-year positive streak, Spain falls four spots to 15th. This drop may portend a continuation of the downward trend in FDI inflows to Spain, with UNCTAD estimating that net FDI inflows fell from $20 billion in 2016 to -$2.5 billion in 2017. But investors in Europe are nevertheless bullish on Spain, ranking the country in 11th place. Furthermore, the number of announced greenfield investments increased an impressive 29 percent between 2010 and 2016—the third highest rate of all European countries in this year's Index.

Bullishness on Spain's economic trajectory is buoyed by a revival in the country's top sector, real estate and infrastructure, which attracted nearly one quarter of FDI between 2013 and 2016.

The political crisis related to Catalonia's separatist movement may be giving pause to some investors, as regulatory transparency and the general security environment are among their top five factors to consider when choosing where to invest. The process of naming a successor for Catalonia's president after the self-imposed exile of Carles Puigdemont in October 2017 has been difficult, resulting in persistent tensions between Catalonia and Madrid. The crisis has proven costly as well. Following the referendum vote, more than 3,100 companies announced their intentions to relocate their headquarters from Catalan to elsewhere in Spain. All told, the Spanish minister of economy has said the Catalonia crisis caused about €1 billion of lost economic growth.

Despite this political uncertainty, investors are more optimistic about the three-year economic outlook for Spain compared with a year ago. The IMF projects that the Spanish economy will grow 2.8 percent in 2018, a significantly stronger outlook than in recent years. And overall bullishness on Spain's economic trajectory is buoyed by a revival in the country's top sector, real estate and infrastructure, which attracted nearly one quarter of FDI between 2013 and 2016. In early 2017, for instance, French real estate investment trust, Foncière des Régions, purchased 19 hotels from Merlin Properties SOCIMI SA for $570 million. And in January 2018, the Spanish government approved a takeover bid from Italian motorway operator Atlantia for Abertis. Once fully executed, this deal would mark a significant injection of foreign capital into the Spanish economy, as it is currently valued at more than $34 billion.

Sweden

Sweden rises one spot to 14th place. This improvement may be in part the result of its strong economic performance in 2017, with its economy growing a robust 3.1 percent. Ahead of the September 2018 general election, the government's fiscal policy is expected to be a balanced mix of lower corporate tax rates and increased spending on welfare. The economy is forecast to expand by 2.6 percent. Sweden is also attractive as the country with the highest manufacturing productivity in Europe, according to the European Innovation Scoreboard.

Investors in the IT sector maintain an especially favorable view of Sweden, ranking the country sixth in this year's Index. It is thus no surprise that Sweden attracted the most tech-related capital investments per capita in Europe in 2016. In April 2017, Amazon Web Services announced plans to establish three new data centers—the first of their kind—near Stockholm in 2018. Later in the year, Google announced the purchase of 109 hectares of land in the Dalarna region of Sweden as part of its long-term data center strategy. The Swedish government is keenly aware of the opportunities stemming from foreign investment following Brexit—particularly in its strong IT industry—as foreign businesses account for half of Sweden's exported goods and 40 percent of corporate R&D spending. Sweden's Enterprise and Innovation Minister Mikael Damberg has noted the Amazon deal would open the door for the digitalization of more traditional companies in the country.

Sweden is positioning itself to continue to attract large investments in other technologies and build on the strong investment activity in recent months. In November 2017, for example, French provider of payment terminals, Ingenico Group SA, acquired the Swedish provider of online payment services, Bambora Group AB, for $1.7 billion. In addition, Chinese investment in Sweden was significant last year, totaling $1.4 billion. The country's largest foreign transaction involved Chinese holding company Geely's purchase of a $3.3 billion stake in Volvo.

Ireland

Ireland moves up one spot to 19th. Investor interest has remained robust even as FDI inflows have been irregular over the past few years. Flows skyrocketed to $188 billion in 2015, plunged to $22 billion in 2016, and recovered to $66 billion in 2017. Overall, however, the economic outlook is bright for Ireland. GDP growth in 2018 is projected to be 3.5 percent—dramatically higher than the 1.9 percent growth expected in the eurozone.

Strong investment is unsurprising given that Ireland offers many corporate advantages, including a competitive cost base, a young and educated workforce, low tax regime, membership in the eurozone, and a launching pad to the rest of Europe. Building on these strengths, investment promotion agency IDA Ireland set goals to welcome 900 new investments leading to 80,000 new jobs in its 2015–2019 FDI strategy. IDA notes that since 2010, the United States has been the largest investor in Ireland (accounting for 70 percent of total), with European countries collectively making up the second-largest source of investments (20 percent of total). Looking ahead, the agency has set its sights on growth in several markets, including Asia, global business services, high-value manufacturing, and its already-strong traditional sectors such as technology, medical devices, and pharmaceuticals. The $4.1 billion purchase of Eircom by French telecommunications companies NJJ Capital SAS and Iliad SA serves as an example of a notable deal under way in Ireland.

The greatest FDI opportunities for Ireland, however, could occur as a result of Brexit. Since the referendum, IDA says it has fielded a significant increase in queries from UK, US, and Asian companies. JPMorgan Chase & Co. is expanding its operation in Ireland, and Barclays and Bank of America have already chosen Dublin as their post-Brexit European hub. In fact, Dublin ranked second in the latest *European Cities of the Future* rankings in part because of its strong performance in attracting financial services investments. In addition, IBM's 2017 *Global Locations Trends* report named Ireland the best country for high-value FDI for the sixth consecutive year.

Denmark

Denmark returns to the Index in 20th place after a one-year absence, reclaiming the rank it held in 2015 and 2016. In 2016, FDI inflows fell precipitously to $951 million, less than a quarter of the

previous year's value. FDI stock has remained more consistent, however, averaging 31.8 percent of GDP between 2014 and 2016, compared with the European average of 48.1 percent of GDP. Finally, though low in absolute terms, the number of announced greenfield investments in Denmark increased more than 53 percent between 2010 and 2016—more than any other European country in the Index.

Foreign-owned firms in Denmark account for one-third of the country's exports, and the Danish government works actively to facilitate foreign enterprise. Denmark tops all European countries in the World Bank's *Doing Business* (third overall) and is the highest-ranking Nordic country and the second-best country in the world for attracting and retaining talent, according to the 2017 IMD *World Talent Report*. To remain competitive, Denmark has launched its Digital Growth Strategy, which will fund a series of initiatives through 2025 aimed at maintaining its status as a "digital frontrunner." These initiatives include the establishment of a digital hub to improve access to talent within emerging technologies, more flexible regulation for companies to test new business models, incorporation of "computational thinking" in elementary school curricula, and better strategies to address cybersecurity breaches. These policies may explain why Denmark was ranked an impressive seventh place by investors in the IT sector in our survey.

Denmark is also regarded as a global leader in green energy, and the government is pursuing a goal to meet at least 50 percent of the country's energy needs with renewable energy, such as wind and solar, by 2030. It follows, then, that some of the largest FDI deals recently completed have been in the energy industry. French oil and gas company Total SA, for example, acquired Maersk Olie Gas A/S for $7.4 billion, and the United Kingdom's INEOS Group Ltd. purchased Ørsted's North Sea area oil and gas business for $1.3 billion.

Belgium

Belgium gains one spot in the Index this year, ranking 21st. According to UNCTAD, net inflows declined from $30 billion in 2016 to an estimated -$3 billion in 2017. Yet the country's economic recovery continues to gain strength. The IMF expects GDP growth, supported by favorable consumption and labor market trends as well as government reform efforts, to increase to 1.9 percent in 2018 from 1.7 percent in 2017.

Belgium has long enjoyed a positive view among investors for its world-class infrastructure and connectivity to the rest of Europe, productive and educated workforce, and proximity to thousands of international institutions. But businesses operating in Belgium have also had to contend with a relatively high corporate tax rate. The Belgian Parliament, however, approved a major corporate tax reform in December 2017, lowering the rate from 33.99 percent to 29.58 percent, effective 1 January 2018, and to 25 percent in 2020. This relief is likely to boost investment and ensure Belgium retains its place as a competitive business environment. An executive at the American Chamber of Commerce in Belgium lauded this move, noting shortly before the law's passing that the reform was an "investment in investment" and would ensure that the tax structure is no longer a deterrent to foreign and domestic business investment in the country.

As in previous years, investor confidence in the country varies significantly by region and sector. Investors based in Europe, for example, rank Belgium sixth while investors based in the Asia Pacific rank it much lower. And there is a notable upswing in confidence among investors in the IT sector in this year's survey. Between 2015 and 2017, the amount of capital invested in Belgium's technology sector has increased by 47 percent (from $174 million to $256 million), thanks in part to activity from Samsung and Google in local start-ups. Furthermore, in early 2018, Google announced it will invest an additional $311 million in its new data center and nearby solar power farm in Belgium.

Portugal

Portugal makes its first appearance in the FDI Confidence Index—in 22nd place. Real GDP in the country rose 2.7 percent in 2017, its fastest rate of growth since 2000, and the IMF forecasts that its economy will expand by 2.4 percent this year. Thanks in part to this economic recovery, Portugal's credit rating was lifted from speculative grade in September by Fitch and in December by Standard & Poor's, and it is expected that Moody's will follow suit in mid-2018. FDI inflows, including financial flows and real estate, also increased in 2017 by 8 percent to total more than €6 billion, according to the Agency for Investment and Foreign Trade of Portugal (AICEP), Portugal's national investment promotion agency.

> Portugal makes its first appearance in the Index, likely thanks to its economic recovery and a five-year strategic plan aimed at boosting investment projects in a variety of innovation-focused areas.

To further promote FDI inflows, the Portuguese government is working in partnership with the European Commission to promote Portugal 2020, a five-year strategic plan aimed at boosting investment projects in the country in a variety of innovation-focused areas. This program, combined with increasing domestic demand, rapid growth in export-oriented sectors, and an economic recovery across Europe, has created an environment ripe for foreign investment in Portugal where broad-based growth is occurring across sectors.

The headline for Portugal is its burgeoning tech sector, which saw an eye-popping 673 percent rise in domestic and foreign investments in 2017 from the previous year, according to data from AICEP. The government also launched a StartUp Voucher initiative, which offers hundreds of fellowships to entrepreneurs, and Portugal began offering special visa options (such as the Golden Visa) for foreign investors. Lisbon is becoming a technology start-up hub thanks in part to the relocation of the annual Web Summit conference from Dublin. And since the start of 2018, Google committed to opening a new tech center near Lisbon that will create 500 jobs, Cisco is partnering with the government to support a nationwide digitalization program, and US-based OutSystems is launching a new Center of Excellence, called the Project Turing, to bring AI and machine learning to software development in Portugal.

Norway

Norway returns to the Index after a one-year absence, now occupying the 23rd spot. This ranking perhaps reflects broader investor interest in Scandinavia, as Denmark and Sweden also improved their overall position on the Index this year. Investors in the IT sector are particularly interested in Norway, ranking it 13th for investment intentions. Reflecting this interest, Singapore's sovereign wealth fund GIC invested $1.7 billion in Visma, a leading Norwegian business IT firm. Norway witnessed net FDI outflows of $5.5 billion in 2016, but the number of greenfield investments increased by 17 percent in 2016 from the previous year.

The country's economic outlook is also positive. Norway's sovereign wealth fund has provided countercyclical support to the economy, and the IMF projects above-average growth for Norway of 2.1 percent in both 2018 and 2019. Oil production remains a significant driver of economic performance—accounting for 14 percent of Norway's GDP and state revenues in 2017, according to Norwegian Petroleum. The apparent end of the prolonged period of low global oil prices, then, is a welcome development. In addition, Statoil's recent decision to change its name to Equinor, reflecting the company's transition toward clean energy, bodes well for Norway's medium-term economic outlook as it signals a broader diversification of the country's economy.

The government is eyeing several reforms to diversify the economy, including reducing the country's wealth tax and promoting Norway as a top location for data storage and ecotourism. As part of this initiative, the government has committed to ease the installation of international fiber optic cables, lower property taxes on relevant production equipment, and conduct a mapping initiative of the country's domestic data center industry.

Austria

Austria ranks 24th on the Index, holding steady for the third year in a row. Continued investor interest in Austria may be driven by its economic upswing, growing by 2.9 percent in 2017, up from 1.5 percent in 2016. Although the IMF forecasts that it will slow to 2.6 percent in 2018 and 1.9 percent in 2019, investors are more optimistic than not about Austria's economic outlook.

Invest in Austria, the country's investment promotion authority, reported that 344 foreign companies set up operations in Austria last year, a record high. German investors accounted for the largest portion of this activity, and Germany continues to represent the largest share of Austria's inward FDI. Significant recent deals, however, show the diversity of Austria's FDI mix. These include the Swiss technology firm ABB's $2 billion purchase of Bernecker + Rainer Industrie-Elektronik GmbH, an Austrian automation and software firm, as well as US-based Multi-Color Corporation's $1.2 billion purchase of Constantia Flexibles Holding's labels division.

Although Austria's economic situation has improved, the political climate provides mixed signals for investors. Austria's new government, led by Chancellor Sebastian Kurz, has proposed to lower the corporate tax rate, though it has not introduced a specific plan or timeline for implementation of such a reform. The government also plans to instill budget discipline through a constitutional amendment to limit the budget deficit. Investors may be wary, however, of some of the coalition government's other proposals, such as a proposed tax increase on foreign ecommerce transactions and opposition to further integration into the EU.

Asia Pacific

The Asia Pacific region attracted more FDI inflows than any other region in 2017, with investors maintaining strong interest. Investor preference for developed markets is reflected in the performance of countries in the Asia Pacific, as Japan, Australia, South Korea, and New Zealand either improved their position or held steady in the rankings. In contrast, emerging market powerhouses China and India fell in the rankings. The sheer size of the Chinese and Indian markets, however, will continue to be a draw for investors, and they remain the highest-ranking emerging markets on the Index. It is also notable that Singapore is the only Southeast Asian economy to rank among the top 25 this year. Overall, though, investors are very optimistic about the economic outlook for the Asia Pacific and are likely to continue to invest significant FDI in this region.

China

China falls two spots to fifth, marking the second consecutive year that the country's rank has declined and its lowest-ever ranking in the history of the Index. China's score also declined to its lowest level in many years. The decline in the likelihood of investing in China comes even as investors remain bullish about the economy. Overall, 38 percent of investors are more optimistic about the economic outlook, a significant improvement from last year. The IMF projects the economy will continue to grow robustly, at 6.6 percent in 2018 and 6.4 percent in 2019.

China's drop on the Index may therefore reflect the overall decline in or dispersion of investment intentions for emerging markets. It may also be in part the result of recent policy changes that have reduced transparency and increased regulatory burdens for investors rather than any major change to the country's economic fundamentals. In fact, the US–China Business Council annual survey found that, compared with three years ago, 40 percent of companies are less optimistic about China's business climate. Beijing, for instance, requires foreign companies to use Chinese-owned virtual private networks, creating cost and data security challenges. Recent political reforms may also contribute to investor unease, as the National People's Congress moved to eliminate presidential and vice-presidential term limits. But Beijing has also taken certain steps to improve its investment environment in some ways. In August 2017, the State Council eased restrictions on foreign ownership and investment in the banking, transportation, securities, and insurance sectors. It also recently announced it will phase out foreign ownership restrictions in the automotive sector by 2022. And, in response to tax reform efforts in the United States, the Chinese Ministry of Finance announced that it was exempting foreign firms from tax withholding obligations if profits are reinvested in China.

China falls to fifth, marking the second consecutive year that the country's rank has declined and its lowest-ever Index ranking. But investors remain bullish about the country's economy.

Despite less robust investor intentions for China, UNCTAD estimates that FDI inflows to China increased by 3.5 percent to $144 billion in 2017. This rise may be because, according to a 2017 report from the US–China Business Council, profitability at Chinese operations improved for almost two-thirds of companies in the last year. Investors from the industry and services sectors rank the Chinese market particularly highly, as do those in the Asia Pacific region. This interest is reflected in some of the large investments of 2017, including Softbank's $5.5 billion investment in Didi Chuxing, and Qatar Airways' acquisition of a 9.6 percent stake in Cathay Pacific Airways from Kingboard Chemical Holdings.

Japan

For the third year in a row, Japan retains the sixth spot in the Index. Investors are broadly positive, with 41 percent of investors more optimistic about the economic outlook, compared with only 12 percent reporting they are more pessimistic. Japan's GDP per capita growth has

averaged 1.42 percent annually over the past five years—slightly ahead of the OECD average of 1.36 percent. And the overall economy looks set to expand by 1.2 percent in 2018 and 0.9 percent in 2019, according to the IMF.

Japan's steady performance on the Index is likely a result of the steps the government has taken to integrate more broadly into the global economy and to attract more foreign investment. The government set a goal in 2013 to double inward FDI by 2020. The government recently passed legislation that drops corporate taxes to about 20 percent for companies that increase productivity, invest in physical capital, or offer higher salaries to workers. Japan has also concluded several major FTAs, such as a renewed version of the Trans-Pacific Partnership and a bilateral trade agreement with the EU. Such agreements are likely to boost cross-border investment as well as trade.

These reforms may already be bearing fruit. FDI inflows to the country increased by 12.4 percent to $34.3 billion in 2016, according to the Japan External Trade Organization. The largest sources of FDI from 2014 to 2016 were the United States, Singapore, and France. Greenfield investment also ticked up in 2016, with a recorded 213 investments—an increase of 15 percent from 2015. There were also notable brownfield FDI deals in 2017. For instance, Comcast completed its acquisition of Universal Studios Japan for roughly $2.3 billion, and Ningbo Joyson Electronic Corp. purchased a majority stake in Takata Corporation. These deals reflect the strong investor interest in Japan from survey respondents based in the Americas and the Asia Pacific regions as well as those in the IT sector.

Australia

Australia moved up one spot to eighth place this year, continuing its streak of being ranked in the top 10 for the eighth year in a row. Its continued attractiveness is likely in part because of the country's strong economic performance. The economy expanded by 2.3 percent in 2017, marking almost 27 years without a recession—a global record. The IMF projects that the economy will expand to grow by close to 3 percent in 2018 and 2019. Despite continued economic growth, Australia faces several economic challenges. The country continues to suffer from high levels of underemployment, sustained low commodity prices, and unreliable and expensive electricity generation.

FDI flows to Australia increased to an estimated $60 billion in 2017, in marked contrast to the overall decline in flows to developed markets. The largest sources of inward FDI in recent years, according to the Australian Department of Foreign Affairs and Trade, have been the United States, the United Kingdom, and Belgium. In 2016, the heavy industry and manufacturing sectors accounted for more than half of all FDI to Australia. However, some large deals in 2017 demonstrate more diversity. Notable recent investments include Microsoft's efforts to expand its cloud services offerings near Canberra, Yanzhou Coal Mining Company's $3 billion purchase of Coal & Allied Industries, and Unibail–Rodamco's pending purchase of Westfield Corporation, a major shopping center operator.

The government is pursuing reforms to appeal even more to foreign investors. In light of recent moves made by the United States and the United Kingdom to lower business tax burdens, for instance, the Australian government hopes to bring a corporate tax reduction plan to a vote in May. The plan would reduce rates to 25 percent by 2025 from 30 percent at present. On the other hand, however, Canberra enacted investment reforms in 2017 that seek to prevent foreign domination of crucial industries such as agriculture and the electric power sector. Although these moves are seen as primarily targeting Chinese investment in Australia, other investors may also be deterred by such regulations.

India

India ranks 11th in this year's Index, holding its position as the second-highest ranking emerging market, but falling out of the top 10 for the first time since 2015. Investors based in the Americas and in the industry sector rank India the highest in terms of their intention to invest there. This confidence may be a result of the government's "Make in India" initiative, which aims to boost investment in India's manufacturing sector as well as its pursuit of closer ties with the United States.

Indian economic reforms likely contributed to the country's performance on the Index—in both positive and negative ways. As a result of government steps to improve the investment environment, India surged 30 spots to rank 100th on the World Bank's *Doing Business 2018*, the first time that India has broken into the top 100. Notable reforms include the elimination of the Foreign Investment Promotion Board, a government agency responsible for reviewing all potential foreign investment, and the liberalization of foreign investment thresholds for the retail, aviation, and biomedical industries. As Prime Minister Narendra Modi noted at this year's World Economic Forum, "we have also undertaken bold FDI reforms. More than 90 percent of the FDI approvals have been put on the automatic approval route." Some policies, however, may have deterred investors—at least in the short term. The 2017 nationwide goods and services tax, for example, has faced implementation challenges, and the 2016 demonetization initiative disrupted business activity and weighed on economic growth.

Strong economic performance and the sheer size of the Indian market are also likely to attract investors. The IMF projects India's economy will grow by 7.4 percent in 2018, the fastest growth rate of any major economy. Inward FDI flows already increased to an estimated $45 billion in 2017, a record high. Japan, the United States, the United Kingdom, and Singapore consistently serve as large sources of FDI for India. And the country's service sector is a target of particular interest for investors, with the government's Economic Survey 2017–2018 noting that inward FDI to the service sector will grow by 15 percent from 2017 to 2018.

Singapore

Singapore ranks 12th this year, down two spots from 2017. Although still a strong showing, this marks the first time since 2015 that Singapore is not ranked in the top 10. Singapore's drop in the Index may be explained by lower overall investor interest in Southeast Asia. Thailand fell out of the top 25 for the first time since 2015 and no other countries from the region appear on the Index this year. Despite the decline, Singapore remains one of the world's most stable economies, with globally competitive financial and tech services firms, as indicated by Mitsui Sumitomo Insurance Company's $1.6 billion acquisition of First Capital Insurance, a major Singaporean insurance firm.

Singapore received an estimated $58 billion in inward FDI in 2017, down slightly from $62 billion in 2016. The country remains an attractive investment destination thanks to its business-friendly regulatory environment and stable macroeconomic performance. Investors maintain a largely positive outlook on Singapore's economy, with 32 percent more optimistic about the country's medium-term growth outlook. This finding is consistent with IMF growth projections, which indicate the economy will grow by 2.9 percent in 2018 and 2.7 percent in 2019. And Singapore again ranked second in the World Bank's *Doing Business 2018*, improving its gross score from the previous year. The government is also trying to boost the competitiveness of its technology ecosystem. It has, for example, proposed an "Open Innovation Platform" to help businesses obtain digital solutions to operational challenges.

Investors from the Asia Pacific and those in the services sector are most interested in the country, which is no surprise given that Singapore is increasing its investment and trade in the Asia Pacific region. Importantly, Singapore is a signatory to the CPTPP. This agreement eliminates barriers on e-commerce and digital services, which should increase the attractiveness of Singapore's technology sector. More broadly, Singapore's FTA with the EU is expected to enter into force later this year, and the government is also negotiating 10 other FTAs.

New Zealand

In only its second year on the Index, New Zealand shoots up seven spots to 16th. Investors are largely positive about New Zealand's economic outlook over the next three years; the country is among the top half of those on the Index in terms of investor optimism about its economic outlook. Indeed, the IMF projects that the economy will grow by 2.9 percent in 2018 and 2019. According to New Zealand Trade and Enterprise, inward FDI totaled around $2.3 billion in 2016—up dramatically from the previous year, when the country witnessed net negative foreign investment.

New Zealand has seen growing investment from Asian countries in recent years. Strong interest from Asian investors in our survey pushes New Zealand up seven spots to 16th.

New Zealand's attractiveness likely results from its strong performance on regulatory transparency and lack of corruption, the top factor that investors consider when choosing where to invest. The country again ranked first in the World Bank's *Doing Business 2018*, highlighting its attractive business environment. And New Zealand also topped Transparency International's most recent Corruption Perceptions Index. New Zealand will soon ratify the CPTPP, which will expand its economic relations with countries that account for 65 percent of FDI stock in the country, according to the Ministry of Foreign Affairs and Trade. The ministry also reports that New Zealand will have to double foreign investment review thresholds for business assets under the CPTPP, creating a more conducive regulatory environment for investment.

New Zealand has seen growing investment from Asian countries in recent years. The Asia New Zealand Foundation estimates that from 2011 to 2015, Asian investors more than doubled their total investment in the country (to 25 percent of all foreign investment) compared with the 2006–2010 period. Our survey results suggest this trend will continue, as investors in the Asia Pacific region rank New Zealand at ninth place for a likely investment destination, an increase of five spots from the previous year. Nonetheless, Australia, the United States, and the United Kingdom remain the largest sources of FDI in New Zealand, with Australia alone accounting for about 53 percent of FDI stock in the country as of December 2016.

South Korea

South Korea remains at 18th place for the second year in a row. According to South Korea's Ministry of Trade, Industry and Energy, FDI inflows reached nearly $13 billion in 2017, up 21 percent from 2016. This is the second year in a row that South Korean FDI inflows increased. The economy is also enjoying solid performance, with its 3 percent growth rate in 2017 expected to be maintained this year and then drop slightly to 2.9 percent in 2019.

The IT and manufacturing sectors continue to drive the economy. The country has consistently topped Bloomberg's annual Innovation Index and currently ranks fourth in the World Bank's *Doing Business 2018*. Investor interest also extends to a range of consumer goods companies. Unilever recently purchased Carver Korea, a major Korean cosmetics firm, for $2.7 billion. And Costco purchased three supermarkets from E-Mart, a Korean grocery firm. In addition, the government's reform of family-owned business conglomerates, known as chaebols, may be opening new opportunities for foreign investment. President Moon Jae-In's administration plans to implement rules to provide greater transparency into the financial transactions of chaebols and their affiliates. Coupled with these efforts are tougher anti-corruption measures, which are top of mind for foreign investors.

The government's efforts to expand trade relationships may also improve its attractiveness to foreign investors by opening up new markets for exports. For instance, South Korea recently signed FTAs with five Central American countries to establish a strategic free trade network throughout the Americas. The government may also pursue membership in the CPTPP, as it has existing FTAs with nine of the 11 signatories. Negotiations to amend the Korea–US Free Trade Agreement resulted in limited changes—such as expanding US market access to South Korea's automotive market and reducing South Korean steel exports to the United States—and thus should have only a minor effect on South Korea's FDI environment.

Conclusion and Business Implications

The dichotomy we saw last year continues in 2018: a strengthening macroeconomy tempered by a riskier political landscape. Broad-based economic expansion provides opportunities for investors to establish or deepen their presence in key growth markets. But geopolitical tensions and domestic policy risks stemming from rising populism and protectionism could disrupt this synchronous global economic upswing. At the same time, these political risks create the imperative for companies to establish a local presence in important markets to maintain access.

We therefore see that investors are planning to rely more heavily on FDI as part of their strategy to succeed in this complex global environment. In particular, investors are pursuing localization strategies with greater vigor and in greater numbers than we have seen in recent years. This new wave of localization makes sense as it becomes more clear that the previous wave of globalization has stalled. Investors' embrace of localization is likely to boost the importance of FDI in the global economy, as such strategies inherently rely on more FDI. However, localization will also create more diversity in FDI methods as investors recognize that a one-size-fits-all strategy is untenable in the current environment.

Such broad pursuit of localization also has the potential to shake up FDI flows dramatically. Investors report, for instance, that changes to NAFTA would result in companies shifting their FDI portfolios within North America. And this example is just one of many that illuminate the potential effects of localization strategies in response to the complicated geopolitical and

macroeconomic environment on FDI and other cross-border flows in the coming years. As similar situations present themselves throughout the world, the FDI Confidence Index survey will allow us to detect early warning signs of these important changes.

Authors

Paul Laudicina, chairman emeritus of A.T. Kearney and chairman of the Global Business Policy Council, Washington, D.C.
paul.laudicina@atkearney.com

Erik Peterson, partner and managing director of the Global Business Policy Council, Washington, D.C.
erik.peterson@atkearney.com

Courtney Rickert McCaffrey, manager of thought leadership for the Global Business Policy Council, Washington, D.C.
courtney.mccaffrey@atkearney.com

The authors would like to thank Stephanie Hollinger and Ari Sillman for their valuable contributions to this report.

About the Global Business Policy Council

The Global Business Policy Council is a specialized foresight and strategic analysis unit within A.T. Kearney. Since its first CEO Retreat in 1992, the Council has been a strategic service for the world's top executives, government officials, and business-minded thought leaders. Through public-facing thought leadership, exclusive global forums, and advisory services, the Council helps to decipher sweeping geopolitical, economic, social, and technological changes and their effects on the global business environment. The Council is dedicated to providing immediate impact and growing advantage by helping CEOs and government leaders anticipate and plan for the future.

Appendix: About the Study

The A.T. Kearney Foreign Direct Investment (FDI) Confidence Index® is an annual survey of global business executives that ranks markets that are likely to attract the most investment in the next three years. In contrast to other backward-looking data on FDI flows, the FDI Confidence Index provides unique forward-looking analysis of the markets 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 subsequent years.

The 2018 FDI Confidence Index is constructed using primary data from a proprietary survey of more than 500 senior executives of the world's leading corporations. The survey was conducted in January 2018. 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 29 countries and span all sectors. The selection of these countries was based on UNCTAD data, with the 29 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 46 percent of respondents, industrial firms for 35 percent, and IT firms for 17 percent.

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

FDI flow figures presented in this report are the latest statistics available from UNCTAD, and all 2017 figures are estimates. The data on specific FDI deal values are from Dealogic unless otherwise noted. Economic growth data and forecasts are from the International Monetary Fund unless otherwise noted. Other secondary sources include investment promotion agencies, central banks, ministries of finance and trade, relevant news media, and other major data sources.

For past editions of the FDI Confidence Index, please go to **www.atkearney.com/foreign-direct-investment-confidence-index.**

A.T. Kearney

Global Business Policy Council

A.T. Kearney is a leading global management consulting firm with offices in more than 40 countries. Since 1926, we have been trusted advisors to the world's foremost organizations. A.T. Kearney is a partner-owned firm, committed to helping clients achieve immediate impact and growing advantage on their most mission-critical issues. For more information, visit www.atkearney.com.

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

For more information, permission to reprint or translate this work, and all other correspondence, please email: insight@atkearney.com.

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.

A.T. Kearney Korea LLC is a separate and independent legal entity operating under the A.T. Kearney name in Korea.

A.T. Kearney operates in India as A.T. Kearney Limited (Branch Office), a branch office of A.T. Kearney Limited, a company organized under the laws of England and Wales.

© 2018, A.T. Kearney, Inc. All rights reserved.