EMERGING MARKET ECONOMIES AS POTENTIAL FDI HOST COUNTRIES

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Abstract

This paper reviews the literature and analyzes foreign direct investment using UNCTAD methodology to test the role of this form of cash flow in economic development. Direct investment in another country is the most advanced form of foreign capital inflow as it supplies *know how*. Many developing countries are becoming potential targets for foreign investments. Among the numerous groups of developing countries, the emerging markets attract 80 percent of foreign direct investment. Our analysis concludes that the allocation of capital within the emerging markets group is not even. Five out of 25 countries (China, Hong Kong, Mexico, Singapore, and Brazil) dominate in attracting over 60 percent of the cash flow. In that regard, a large part of the analyzed group, 18 countries, is assessed as having a high potential for attracting foreign capital

JEL Classification: F21
Key words: Foreign direct investment, Developing countries, Potential for investment

1. Introduction

The emerging market is an equivocal category as there is no universally accepted definition or criteria used to distinguish emerging market economies from among the numerous developing economies.[1] In the *World Investment Report* (WIR) published by the United Nations Conference on Trade and Development (UNCTAD), statistical data on the world economy is analyzed around three groups: developed countries, developing countries and countries of Central and Eastern Europe. Although UNCTAD makes no distinction within emerging market economies, assessment of economic and social development prospects in emerging markets do

[1] A publication by the Deutsche Bank compares the role of FDI in emerging market economies compared to other forms of financing. *Past developments and implications for financial stability*, Deutsche Bundesbank, International Relations Department, J2/J2-2, Frankfurt 2003, p. 3.

appear in the WIR reports as only a reference to the data published by the International Monetary Fund (IMF) and the Institute of International Finance (IIF).[2]

The International Monetary Fund in the *World Economic Outlook* (WEO) report identifies a group of 146 developing and emerging countries, which includes all the economies not classified as advanced.[3] In the WEO of 2004, the statistics referring to emerging markets focus on 32 countries,[4] while the International Institute of Finance listed 29 countries as emerging markets.[5] Moreover, the Bank for International Settlements (BIS) in the 74th *Annual Report* referred to 22 emerging economies.[6] Finally, according to the classification used by the Standard & Poor's rating agency, a country is classified as emerging if it has a low-or middle-income economy (as defined by the Word Bank)[5] low investable market capitalization in relation to the GDP and its equity market exhibits significant features of emerging markets.[8] According to the data for the end of 2004, S&P distinguished 33 such economies.[9]

In the context of this paper, the emerging market group comprises 25 countries classified as emerging markets by *The Economist*. As many as 19 economies from this group appear on all the aforementioned lists, according to the 2004 data. *The Economist* published the list of emerging economies for the first time in January 1994, as a separate group of developing economies. The selection criteria are based on the GDP and stock market capitalization. For the first two years, the list comprised 24 countries, and has since been enlarged by one more entity, Colombia. During the period under consideration, two changes were made, first in 1998; Portugal was included in the list for the last time, and then replaced in 1999 by Egypt. Second, in 2001, Greece was removed from the list and replaced by Peru. The list of emerging market economies along with the data on GDP and stock markets capitalization is presented in Table 1.

The countries placed on the emerging markets list are quite diversified with regard to the indexes analyzed. For example, in 1993, the share of individual countries in the total world production, based on the purchasing power parity, fluctuated from 7.62 percent for China and 4.5 percent for India to only 0.17

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[2] World Investment Report 2004, UNCTAD, New York 2004, p. 34 -36.

[3] USA, Germany, France, Italy, Spain, Netherlands, Belgium, Austria, Finland, Portugal, Greece, Ireland, Luxembourg, Japan, United Kingdom, Canada, Korea, Taiwan, Australia, Sweden, Switzerland, Hong Kong, Denmark, Norway, Israel, Singapore, New Zealand, Cyprus, Iceland. World Economic Outlook 2004, International Monetary Fund, pp. 195 i 236.

[4] Argentina, Brazil, Bulgaria, Chile, Czech Republic, Estonia, Philippines, Hong Kong, India, Indonesia, Israel, Colombia, Korea, Lithuania, Latvia, Malaysia, Mexico, Pakistan, Peru, Poland, Russia, RPA, Romania, Singapore, Slovakia, Slovenia, Taiwan, Thailand, Turkey, Ukraine, Venezuela, Hungary. World Economic Outlook 2004, International Monetary Fund, p. 4. There is certain inconsistency here, however, since some of the aforementioned economies are also mentioned in the statistics concerning economically advanced countries. Compare footnote 3.

[5] Algeria, Argentina, Brazil, Bulgaria, Chile, China, Czech Republic, Egypt, Ecuador, Philippines, India, Indonesia, Colombia, Korea, Malaysia, Morocco, Mexico

Table 1: Emerging market economies according to *The Economist*

Economy	1993/1994			2003/2004		
	GDP as % share in the total world GDP in 1993 (acc. to PPP)*	GDP per capita in 1993 US$ (PPP)*	Stock markets** (04.01.1994)	GDP as % share in the total world GDP in 2004 (acc. to PPP)*	GDP per capita in 2004 US$ (PPP)*	Stock markets** (12.01.2005)
China	7.62	1 943.5	1 132.9	13.01	5 299.1	1 319.5
India	4.50	1 533.4	3 479.9	5.83	2 848.9	6 102.7
Russia	3.40	6 902.3	no data	2.58	9 626.5	605.5
Brazil	2.99	5 668.5	40 064.0	2.73	8 258.0	24 509.0
Mexico	1.98	6 796.2	2 558.9	1.83	9 356.8	12 329.2
Indonesia	1.51	2 433.7	599.9	1.45	3 472.7	1 008.6
Korea	1.38	9 435.4	877.3	1.67	18 354.7	880.0
Argentina	1.11	9 934.4	598.2	0.84	11 456.4	1 344.1
Turkey	0.99	5 099.3	22 288.0	0.92	6 948.7	26 271.3
S. Africa	0.99	7 869.8	5 088.3	0.91	10 271. 0	12 724.8
Taiwan	0.95	13 687.0	6 070.6	1.06	24 528.1	5 879.1
Thailand	0.92	4 747.6	1 753.7	0.91	7 444.2	694.6
Poland	0.77	6 020.5	13 346.0	0.84	11 427.9	25 716.8
Philippines	0.66	3 019.9	3 308.4	0.70	4 482.0	1 820.6
Colombia	0.64	5 200.4	-	0.56	6 500.9	4 347.9
Egypt	0.46	2 540.4	-	0.50	3 900.9	25 858.1
Greece	0.41	12 032.1	994.2	0.41	19 562.9	-
Malaysia	0.40	6 160.0	1 313.4	0.47	9 900.8	933.0
Portugal	0.39	11 967.3	2 685.3	0.35	18 428.1	-
Hong Kong	0.38	19 301.4	12 201.0	0.37	28 058.8	13565.3
Venezuela	0.38	5 437.3	22 286.0	0.23	4 663.7	29 922.7
Czech Rep.	0.36	10 557.3	no data	0.31	16 265.1	1 066.6
Hungary	0.28	8 325.6	1 228.7	0.28	15 342.4	15 053.6
Chile	0.28	6 170.5	4 035.8	0.31	10 422.56	8 620.3
Israel	0.26	15 922.4	253.2	0.26	21 009.4	652.6
Peru	0.26	3 241.2	-	0.28	5 170.5	3 826.3
Singapore	0.17	15 714.4	2 471.9	0.20	24 407.3	2 079.8

Sources: compiled on the basis of: * data published by the International Monetary Fund (www.imf.org); ** *The Economist*: January 8th 1994, January 15th 2005.

percent for Singapore. At the same time, Singapore was one of the countries with the highest GDP per capita, while for both China and India this index values were very low.

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[6] Studzi_ska, K: *Bezpo_rednie inwestycje zagraniczne w Polsce na tle _wiata*, [in:] „*Bezpo_rednie inwestycje zagraniczne w Polsce*" (ed. Karaszewski, W.), Wydawnictwo Uniwersytetu Miko_aja Kopernika, Toru_ 2003, p. 12 – 13.

[7] Converting nominal values into real ones has Bern done using appropriate conversion factors (CF). R. Sahr: *InflationConversionFactors for Dollars 1665 to Estimated 2015*. Oregon State University: http://oregonstate.edu/dept/pol_sci/fac/sahr/sahr.htm.

[8] According to the UNCTAD classification this group includes: Albania, Belorussia, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Macedonia, Moldova, Poland, Romania, Russia, Slovakia, Slovenia, Ukraine and Yugoslavia. UNCTAD – *Handbook of Statistics On-Line* (http://www.unctad.org).

[9] According to the UNCTAD classification the developed countries group includes: Austria, Belgium, Luxembourg, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Spain, Sweden, the Great Britain, Gibraltar, Iceland, Malta, Norway, Switzerland, Canada, USA. UNCTAD – *Handbook of Statistics On-Line* (http://www.unctad.org).

At the beginning of 2004, Brazil had the highest index in terms of stock market capitalization (40,064) along with 3 percent share in world GDP. Turkey and Venezuela had a high capitalization (22,288 and 22,286), but with a much lower share of the world production, 0.99 percent and 0.38 percent respectively. The lowest capitalization index belonged to Israel (253.2), but the country had one of the highest FDI reletive to GDP *per capita* (US$ 15,922). As of 1993, Poland s share in total world GDP was 0.77 percent, along with the GDP *per capita* of US $ 6,020.

Except for China, even though there was no profound change in the world production share, we noticed a significant increase in affluence, as determined by the GDP per capita (e.g. Poland, Hong Kong, Hungary, and Israel): due care should be taken of the data for China, since about a third of the GDP is that of Hong Kong added to China s GDP since the return of Hong Kong to China. As for the stock market capitalization index, despite a 50 percent decrease, Brazil still remains among those with the highest index level. The others were Turkey, Poland, Egypt and Venezuela (according to the data for 2005).

Now that the definition of what constitutes emerging market economies is somewhat clearer, the rest of the paper attempts to use this classification to examine the capital flow from FDI to these countries. The rest of the paper is organized as follows. Section 2 provides a description of the FDI flows. In the next section, the reader will find a discussion of what is the attractiveness for FDI investments. Section 4 attempts to examine the capital stock created by the FDI flow, and ranks the countries. The paper ends in Section 5 with pertinent conclusion on the potential for FDI in the group classified as emerging market economies.

2. Allocation of FDI inflows during 1990-2003

FDI is defined as equity holding across national borders, either as a greenfield investment, when the FDI is used to find a new business in a foreign country, or as purchasing property rights in an already existing company, on a scale that provides for a direct participation in the management. According to the OECD

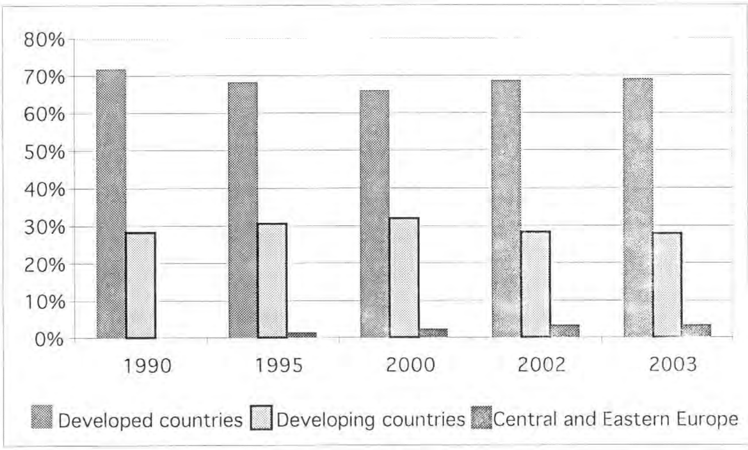
Table 2: FDI Inward in 1990 — 2003 (US$ billion)

Economy	Years				
	1990	1995	2000	2002	2003
World	1,950,3	2,992,1	6,089,9	7,371,5	8,245,1
including:					
Developed countries	1,399,5	2,035,8	4,011,7	5,049,7	5,701,6
Developing economies	547,9	916,7	1,939,9	2,093,5	2,280,2
Central and Eastern Europe	2,8	39,6	138,3	228,2	263,3

Source: Compiled on the basis of the UNCTAD data —*Handbook of Statistics On-Line* (http://www.unctad.org) definition, a direct investment enterprise is an enterprise in which a foreign investor owns at least a 10 percent share in the equity capital. However, direct investment is not just a simple transfer of finance capital. It comprises experience, technical expertise and enterprise, *know how*.[10]

Between 1990 and 2003, the World witnessed a period of soaring increase in the value of FDI, resulting in a sudden increase in the accumulated stock of FDI. The accumulated real value of FDI realized worldwide tripled[11] in 2003. The accumulated level of foreign investments in Central and Eastern Europe[12] went 18-fold over 1990 to 2003. Meanwhile, the accumulated value of FDI in developed[13] and developing countries approximately tripled.

Figure 1:FDI Inward distribution worldwide in 1990 - 2003:percent



My own calculations on the basis of the UNCTAD data– *Handbook of Statistics On-Line* (http://www.unctad.org).

[10] Studzi_ska, K: *Bezpo_rednie inwestycje zagraniczne w Polsce na tle _wiata*, [in:] „*Bezpo_rednie inwestycje zagraniczne w Polsce*" (ed. Karaszewski, W.), Wydawnictwo Uniwersytetu Miko_aja Kopernika, Toru_ 2003, p. 12 – 13.

[11] Converting nominal values into real ones has Bern done using appropriate conversion factors (CF). R. Sahr: *InflationConversionFactors for Dollars 1665 to Estimated 2015*. Oregon State University: http://oregonstate.edu/dept/pol_sci/fac/sahr/sahr.htm.

[12] According to the UNCTAD classification this group includes: Albania, Belorussia, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Macedonia, Moldova, Poland, Romania, Russia, Slovakia, Slovenia, Ukraine and Yugoslavia. UNCTAD – *Handbook of Statistics On-Line* (http://www.unctad.org).

[13]According to the UNCTAD classification the developed countries group includes: Austria, Belgium, Luxembourg, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Spain, Sweden, the Great Britain, Gibraltar, Iceland, Malta, Norway, Switzerland, Canada, USA. UNCTAD – *Handbook of Statistics On-Line* (http://www.unctad.org).

Table 3: Allocation of annual FDI inflows in 1990–2003: US$ million

Year	World	including:		
		Developed countries	Developing countries	Central and Eastern Europe
1990	208 646	171 109	36 897	640
1991	158 702	112 784	43 280	2 637
1992	166 402	107 130	54 579	4 694
1993	225 505	136 993	81 413	7 099
1994	260 775	145 711	108 743	6 322
1995	335 734	204 426	115 953	15 356
1996	388 532	221 878	151 984	14 670
1997	488 327	268 364	198 906	21 056
1998	690 905	472 545	194 055	24 305
1999	1 086 750	828 352	231 880	26 518
2000	1 387 953	1 107 987	252 459	27 508
2001	817 574	571 483	219 721	26 371
2002	678 751	489 907	157 612	31 232
2003	559 576	366 573	172 033	20 970

Source: Compiled on the basis of the UNCTAD data —*Handbook of Statistics On-Line* (http://www.unctad.org).

The substantial increase in foreign investments in Central and Eastern Europe (CEE), even though drastic, is still minor in relative terms. During the same period, the accumulated value of FDI realized in the CEE countries was only 3.19 percent of the total direct investment worldwide: this is not surprising as capital accumulation takes a long time. By contrast, the accumulated value of FDI share of 4 percent in Holland was higher than the total investment in twenty CEE countries.[14]

In that regard, the biggest share in attracting this investment still belongs to developed countries, where the accumulated FDI value in the test period was between 66-72 percent: See Figure 1 and Table 3

Annual foreign direct investment stock reached their highest value in the year 2,000 (US$ 1,400 billion). Developing countries received 18 percent of this amount, and CEE countries 2 percent. The largest stock of capital inflow of FDI reached in 2002 was US$ 31.2 billion, accounting for 4.6 percent of the total world value of FDI. In the following years, FDI inflow displayed more diversity across countries (see figures 2 and 3).

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[14]My own calculations on the basis of the UNCTAD data– *Handbook of Statistics On-Line* (http://www.unctad.org).

Figure 2: Dynamics of the annual FDI inflow in 1991 - 2003

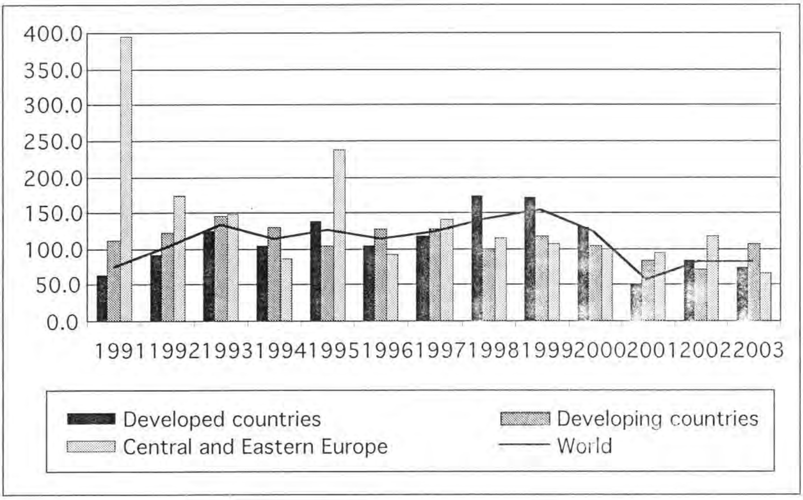
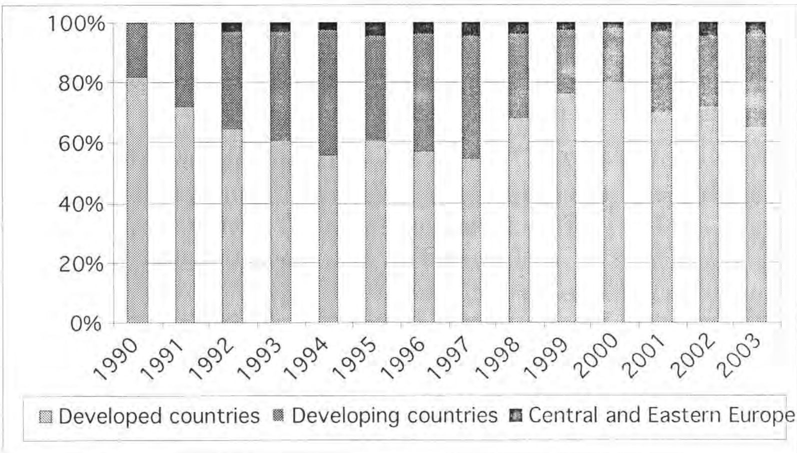


Figure 3: Structure of annual FDI inflows in 1990 – 2003



3. Attraction of FDI to emerging market economies

According to UNCTAD, a country's attractiveness to foreign direct investment depends on three main factors:[15] policy framework for FDI: economic, political and social stability; rules regarding entry and operations; standards of

[15] *World Investment Report 2002*, UNCTAD, p. 24, on factors influencing a country's attractiveness to investment; see also Bojar, E.: *Bezpo_rednie inwestycje zagraniczne w obszarach s_abo rozwini_tych*. PWN, Warszawa 2001, p. 23 – 24 and Olesinski, Z.: *Bezpo_rednie inwestycje zagraniczne w Polsce*, PWE, Warszawa 1998, p. 40 – 51.

treatment of foreign affiliates; policies on functioning and structure of markets; international agreements on FDI; privatization policy; trade policy and coherence of FDI and trade policies; tax policy. The second factor is economic determinant: access to regional and global markets; country – specific consumer preferences; resource/asset – market – seeking FDI; market size and per capita income; market growth; seeking FDI; raw materials, low – cost unskilled labour; technological, innovatory and other created assets (e.g. brand names), including as embodied in individuals, firms and clusters; and physical infrastructure. The third factor is efficiency–seeking FDI: cost of resources and assets listed under resource/asset – seeking FDI, adjusted for productivity of labor resources; other input costs, e.g. transport and communication costs to/from and within host economy and costs of other intermediate products; membership in a regional integration agreement conductive to the establishment of regional corporate networks.

Business facilitation also plays a role: investment promotion (including image-building and investment-generating activities and investment-facilitation services); investment incentives; hassle costs (related to corruption, administrative efficiency, etc.) and social amenities (bilingual schools, quality of live, etc.); after-investment services.

To assess the effectiveness in attracting foreign investments, we will be using two indices developed by UNCTAD. The first index (*FDI Performance Index*) shows the achieved FDI level in the country. It is a ratio of the given country's inward FDI in total value of foreign direct investment realized worldwide to the country's GDP share in the world product.[16]

The second index (*FDI Potential Index*) is an average of the results obtained from appropriate calculations[17] based on twelve factors (variables measured on the scale from 0 to 1) influencing the given country's potential in attracting foreign direct investment. The variables used for determining the above item from year 2001 and 2003 during the period were.[18]

- GDP *per capita*,
- the rate of growth of GDP,
- the share of exports in GDP,
- telecom infrastructure (the average of telephone lines per 1000 inhabitants and mobile phones per 1000 inhabitants),
- commercial energy use per capita ,

[16] $IND_i = (FDI_i / FDI_w) : (GDP_i / GDP_w)$, where: IND_i –The Inward FDI Performance Index of the i-th country, FDI_i – FDI inflows in the i-th country, FDI_w –World FDI inflows, GDP_i - GDP in the i-th country, GDP_w – World GDP. *World Investment Report 2002*, UNCTAD, New York – Geneva 2002, p. 34.

[17] $(V_i - V_{min}) : (V_{max} - V_{min})$, where: V_i –the value of a variable for the country i, V_{min} – the lowest value of the variable among the countries, V_{max} — the highest value of the variable among the countries. *World Investment Report 2002, UNCTAD, New York – Geneva 2002, p.* 34.

[18] *World Investment Report 2002, UNCTAD, New York – Geneva 2002, p.* 36.

- share of R&D expenditures in gross national income,
- the share of tertiary students in the population,
- country risk,
- exports of natural resources as a percentage of the world total,
- imports of parts and components of electronics and automobiles as a percentage of world total,
- exports in services as a percentage of the world total, and
- inward FDI stock as a percentage of the world total.

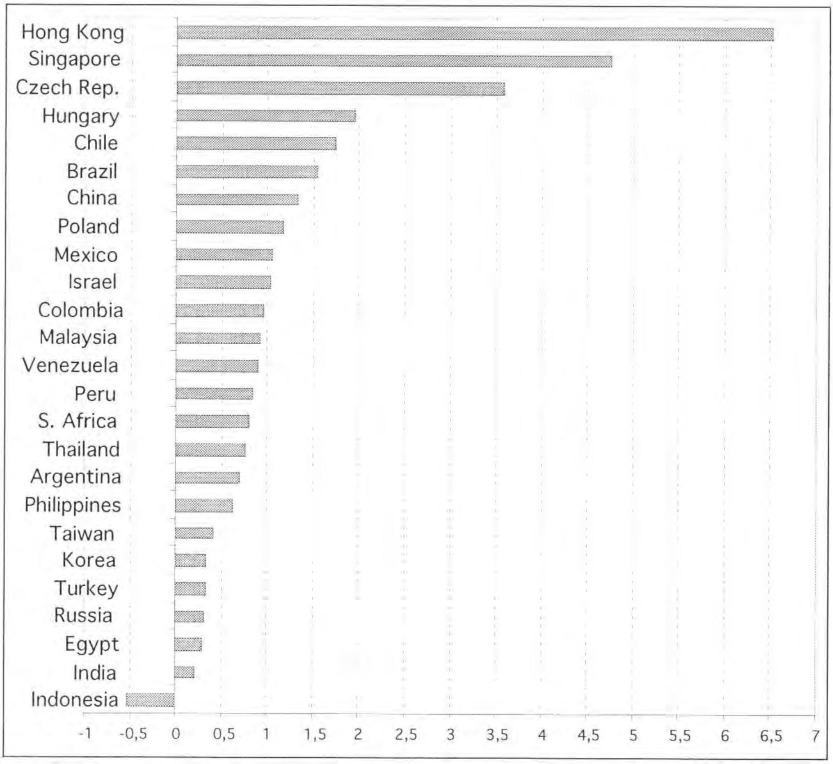
Table 4: Assessment of emerging market attractiveness to investment

Country	*FDI Performance Index*		*FDI Potential Index*	
	Score	Rank (among 140 countries)	Score (0 – 1)	Rank (among 140 countries)
Best index	13 ,53	1 Belgium and Luxembourg	0,659	1 USA
Worst index	- 2,53	140 Surinam	0,042	140 Kongo
Argentina	0,692	85	0,175	77
Brazil	1,538	37	0,184	68
Chile	1,736	34	0,237	48
China	1,331	50	0,273	39
Czech Rep.	3,583	10	0,263	42
Egypt	0,286	113	0,182	70
Philippines	0,618	90	0,212	57
Hong Kong	6,508	2	0,413	12
India	0,215	121	0,159	89
Indonesia	- 0,528	139	0,163	82
Israel	1,037	66	0,354	23
Colombia	0,953	69	0,144	101
South Korea	0,330	107	0,387	18
Malaysia	0,923	70	0,292	32
Mexico	1,054	64	0,233	50
Peru	0,845	77	0,165	81
Poland	1,179	56	0,256	44
Russia	0,317	111	0,291	33
South Africa	0,807	78	0,185	66
Singapore	4,755	6	0,465	4
Thailand	0,753	80	0,215	54
Taiwan	0,401	103	0,337	21
Turkey	0,325	109	0,181	72
Hungary	1,954	27	0,269	41
Venezuela	0,896	74	0,177	73

The above-named indices for emerging market economies have been compiled and included in Table 4. The indices for economies at the top and at the end of the rankings have been included in the table for comparison.

For the period under consideration, the highest *FDI Performance Index value* of 13.53 was for Belgium and Luxembourg and the lowest 2.53 to Surinam. The index value for emerging market economies fluctuated between 6.508 and —0.528. Three countries from the emerging markets group — Hong Kong, Singapore and the Czech Republic — are well ahead of the others with regard to the score.Poland has been listed at number eight. The only country with negative index value is Indonesia in the period 2000-2002.

Figure 4: Emerging markets rank using *FDI Performance Index*



The highest *FDI Potential Index* was 0.659 obtained by the United States. According to this index, Singapore and Hong Kong ranked the highest among emerging markets in addition to obtaining the best marks for the FDI inflow. Also, many countries with a low *FDI Performance Index* values ranked high here (e.g. Korea, Russia, Taiwan, Malaysia and Poland at number eleven). The last place among the analyzed economies was taken by Colombia.

Figure 5: Emerging Markets Ranking with regard to the FDI Potential Index

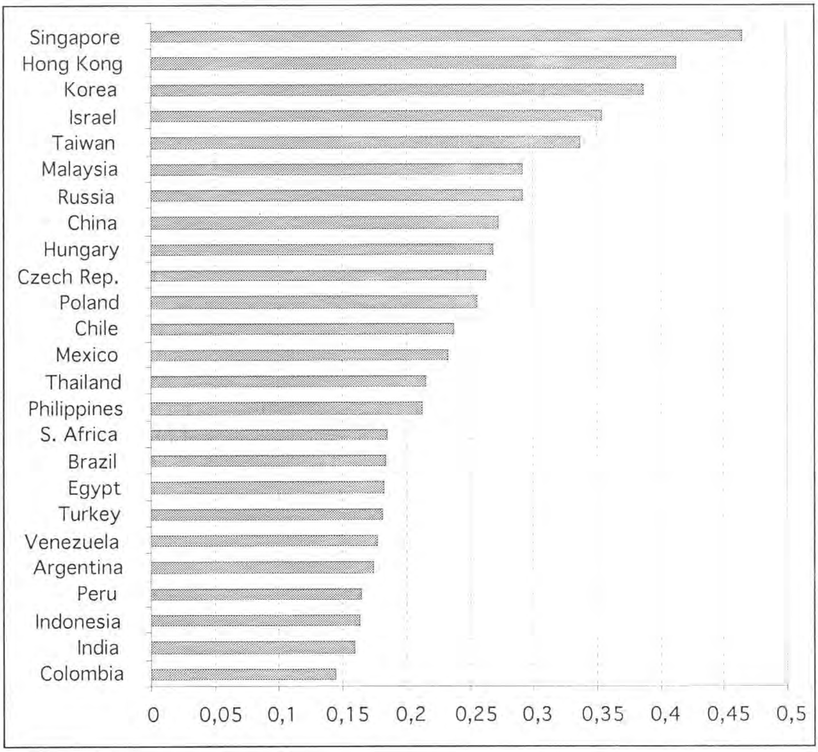


Table 5: Matrix of inward FDI performance and potential: 2000-2002

Index		*FDI Performance Index*: High	*FDI Performance Index*: Low
FDI Potential Index	High	Group I Front - runners	Group II Below - potential
	High	Brazil, Hong Kong, Mexico Chile, Hungary, Poland China, Israel, Czech Republic Singapore, Malaysia	Egypt, South Africa Philippines, Taiwan Korea, Thailand Russia
	Low	Group III Above - potential	Group IV Under - performers
	Low	Colombia	Argentina, Peru India, Turkey Indonesia, Venezuela

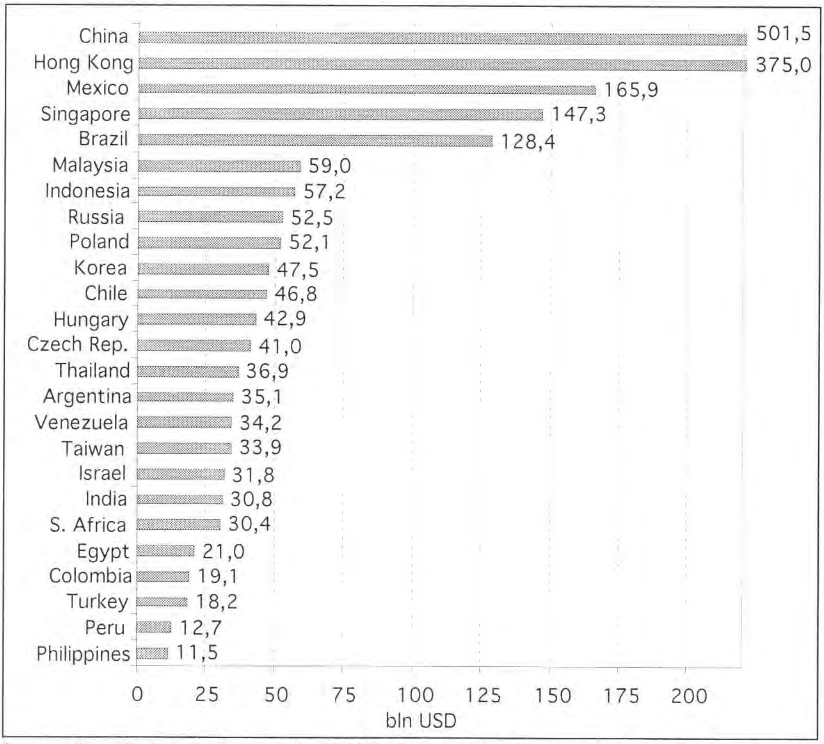
Source: Compiled on the basis of *World Investment Report 2003*, UNCTAD, New York 2002.

As outlined in Table 5 in page 93, the countries have been classified into four groups: Group I are front-runners in attracting FDI, with the level of both indices above the average of the group of 140 countries under scrutiny. Eleven emerging market economies have been placed in this group, with the *FDI Performance Indices* ranging from 6.508 (Hong Kong) to 0.926 (Malaysia) and the *FDI Potential Indices* from 0.465 (Singapore) and 0.184 (Brazil). Poland is placed in the front-runners group with indices of 1.179 and 0.256 respectively.

Group II countries are the countries with potential. Seven emerging markets are included with many rich and highly developed with a low level of the *FDI Performance Index*. Also the United States have been placed in this group, showing the highest *FDI Potential Index* but exhibiting a low level of FDI inflow in relation to the size of their economy. For the emerging markets included in this group, the *FDI Performance Index* ranged from 0.807 (South Africa) to 0.286, and the *FDI Potential* Index – from 0.387 (Korea) to 0.182 (Egypt).

Group III economies include Columbia. This group includes countries with weak structure but with a significant inflow of foreign capital. Most countries in this group are poor countries lacking an industrial base. The group also includes

Figure 6: FDI inward flow as a stock at the end of 2003



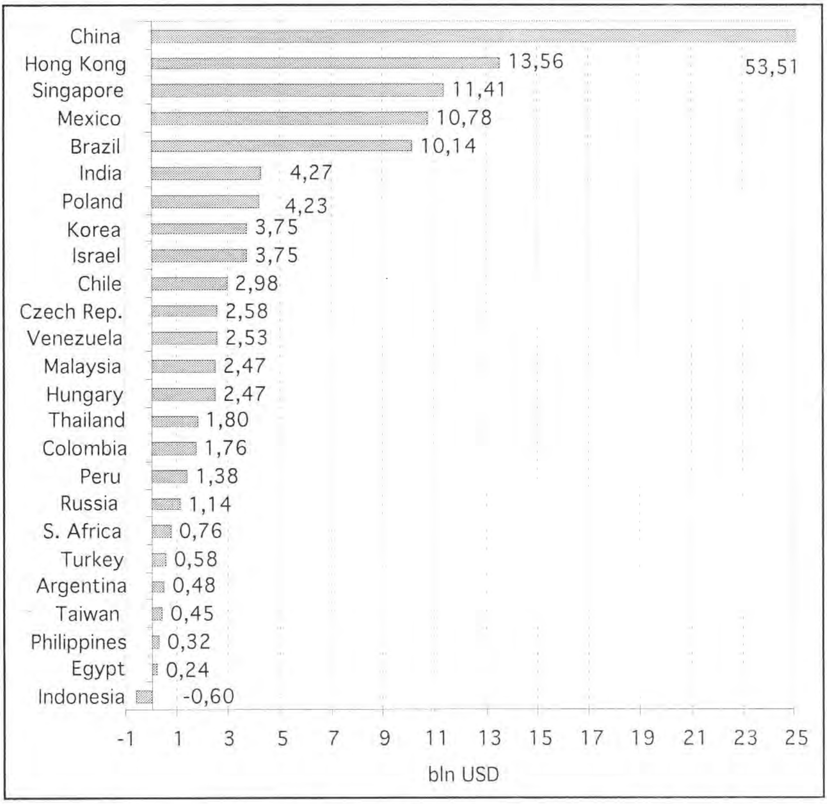
Source: Compiled on the basis of the UNCTAD data – *Handbook of Statistics On-Line* (http://www.unctad.org).

e.g. Albania, Moldova, and Macedonia. Group IV comprises poor countries that are not able to attain the expected share in the world FDI inflows due to the economic or political constraints. Some countries have been placed in this group as a result of a drop in foreign capital inflow due to the economic crises.

4. FDI stock in emerging market economies, 2003

At the end of 2003, the accumulated value of foreign direct investment in 25 selected economies including the emerging markets group reached US$ 2,033 billion with sixty five percent invested in just five countries (China, Hong Kong, Mexico, Singapore, Brazil), out of which the unquestionable leaders are China (US$ 501.5 billion) and Hong Kong (US$ 375 billion). In the remaining twenty countries, the value of FDI ranged from US$ 11 to 59 billion. Foreign direct investment in Poland reached the value of US$ 52 billion, giving the country the ninth place in the group.

Figure 7: FDI inward flow as a stock at the end of 2003



Source: Compiled on the basis of the UNCTAD data —*Handbook of Statistics On-Line* (http://www.unctad.org)

Table 6: FDI inflow into emerging market economies & FDI Potential Index: 2000–2002

Emerging Market Economy			Ranking acc. to the value of FDI realized in 2003																								
			China	Hong Kong	Singapore	Mexico	Brazil	India	Poland	Korea	Israel	Chile	Czech Rep.	Venezuela	Malaysia	Hungary	Thailand	Colombia	Peru	Russia	S. Africa	Turkey	Argentina	Taiwan	Philippines	Egypt	Indonesia
			1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
Ranking acc. to FDI Potencial Index (2000 – 2002)	Singapore	1			X																						
	Hong Kong	2		X																							
	Korea	3								X																	
	Israel	4									X																
	Taiwan	5																						X			
	Malaysia	6													X												
	Russia	7																		X							
	China	8	X																								
	Hungary	9														X											
	Czech Rep.	10											X														
	Poland	11							X																		
	Chile	12										X															
	Mexico	13				X																					
	Thailand	14															X										
	Philippines	15																							X		
	S. Africa	16																			X						
	Brazil	17					X																				
	Egypt	18																								X	
	Turkey	19																				X					
	Venezuela	20												X													
	Argentina	21																					X				
	Peru	22																	X								
	Indonesia	23																									X
	India	24						X																			
	Colombia	25																X									

The annual value of the FDI inflow in 2003 was US$ 136.8 billion. Out of this amount, 40 percent went to China, 36.6 percent to Hong Kong, Singapore, Mexico Poland and Brazil and the remaining 26.4 percent was invested in the remaining 20 economies.

Table 6 presents the ranking of emerging markets based on the *FDI Potential Index* (set according to the data of 2000 - 2002) and the amount of FDI realized in 2003. The sign "X" marks the position of a given economy in both rankings.

On the basis of the data set, we can conclude that for eight economies, the inflow of investment corresponds to, or is very close to, the UNCTAD forecasts (Hong Kong, Argentina, Czech Republic, Thailand, Turkey, Singapore, Chile, and Indonesia). In many cases, however, the reality was in line with the forecasts. For example, China, while ahead of the rest of the countries with regard to the inflowing investments in 2003, was at the far eighth rank according to the *FDI Potential Index.* There was also much divergence in the case of India, Brazil, Mexico (the further "X" is from the Table's diagonal, the greater is the divergence from the forecast). Worth noting are also Taiwan and Russia – the potential indices

[19] Data for 2004 were not available at the moment of finalizing the work on this paper.

for these countries were high but the investments realized there in 2003 placed them low down in the analyzed group.

It must be emphasized, however, that the above analysis cannot be the basis for the final assessment of the accuracy of the UNCTAD *FDI Potential In.*[19] Moreover, we must bear in mind that the indices are generated based on historical data, while the ever-changing conditions of functioning in the world's global economy force investors to act quickly in accordance with the shifting conditions of business environment.

5. Conclusions

Emerging market economies liberalizing the internal markets and opening the economy to the global circulation of production factors are introducing financial markets to international finance. This has enabled them to enter the path of fast economic growth hoping they will soon join the group of highly developed countries. These economies are becoming a potential target for the world capital flows seeking the most profitable ways of allocation. Foreign direct investment is the most advanced – and the most wanted by the host country – form of foreign capital inflow because, besides money, it supplies *know how*.

Among the numerous groups of developing countries, emerging markets attract 80 percent of foreign direct investment. However, the allocation of capital within the emerging markets group is not even. Five countries (China, Hong Kong, Mexico, Singapore, and Brazil) dominate the analyzed 25 economies, attracting over 60 percent of FDI. In that regard, a large part of the analyzed group (18 countries) is assessed as having a high potential for attracting foreign capital. It is up to the policy makers to formulate policies to reach the full potential attractiveness for capital. We propose this analysis as a preliminary for further work in this area, for example identifying the reasons for not reaching the potential.

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