**Pondering FDI in crisis: Investment could drop or it just might rise**

**Karl P. Sauvant**

WITH US$1.8 trillion, world foreign direct investment (FDI) flows reached an all-time high last year. All major regions benefited from increased flows. But that was then.

What is, and will be, the impact of the financial crisis and the reduced FDI flows this year and next?

Several forces are at work, best discussed in terms of the three sets of FDI determinants: economic conditions, the regulatory framework and investment promotion.

If we are lucky, as far as the first of these factors is concerned, global GDP will not shrink in 2009. A bit of shrinking in developed countries may be offset by expected growth in emerging markets.

Since economic growth is the single most important FDI determinant for attracting investment, developed countries received some 70 percent of FDI flows in 2007. This economic slowdown, further accentuated by the financial crisis, makes key markets less attractive to invest in — and hence depressing FDI flows.

Even from the narrow perspective of FDI, the proposals by Jeffrey Sachs (Financial Times, October 27) and George Soros (Financial Times, Oct 29) on how to avoid a global recession should be heeded.

If Asian countries and especially China should be able to attract more investment in those markets (although China, with US$84 billion of FDI inflows, was already, until the recent financial market host country in 2007).

Similarly, if Asian firms are less constrained by the credit crunch, they may accelerate their outward FDI. Chinese outward FDI, for instance, was US$23 billion in 2007, was US$26 billion during the first half of 2008 alone, possibly reaching US$50istion.

Add to that the potential FDI by Sovereign Wealth Funds (SWFs); so far, such sovereign FDI has barely taken off (and, in the financial world, was not very profitable). Moreover, undervalued assets in developed countries and elsewhere beckon, helped possibly by the strong currencies of some home countries and the weak currencies of some host countries.

**Protectionism**

This could mean that important investors are sitting on the fence, waiting for the stock market to hit rock-bottom, before investing.

If so, there is a chance that FDI outflows from emerging markets (which were US$300 billion in 2007) could possibly hold up, at least this year. This possibility depends on the openness of the regulatory framework for FDI, especially in developed countries.

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This is reflected, among other things, in the increase of national policy changes, as well as more restrictive review processes, that make the investment environment less hospitable, especially for cross-border M&As.

A good part of such protectionist attitudes is directed against sovereign FDI by state-owned enterprises and SWFs from emerging markets — precisely those entities that still are in a position to continue, if not increase, their outward FDI.

It is actually surprising how little FDI SWFs have under taken so far, the skeptical attitude in developed countries partly explains this. Regulatory risk could exacerbate the negative economic factors. It is here where investment promotion agencies can play a role.

Investment promotion agencies worldwide can be expected to make an extra effort to convince their governments to keep the investment climate welcoming.

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If Asian countries... should further stimulate domestic demand, it would be even more attractive for multinationalas to increase investment in those markets.

**Recession hits luxe-hungry low end buyers**

**As 2009 shapes up to be the most challenging year, for luxury times, marketers’ plans for targeting aspirational 16-year-olds are suddenly out.**

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“With high-end fashion, you’re buying into a lifestyle,” said Prada’s Kabat. “You’re buying into someone’s point of view, and that’s reflected in the products that are created.”

Mirucca Prada, the Milan designer who began creating the current incarnation of the company in the 1970s, is content to leave the business side of marketing new products to others so that she can focus on European runway shows, Kabat said.

That does not mean, however, that luxury firms do not want their products to reach a fairly broad audience.

Indeed, Kabat had words of praise for a trend she described as “Targetization,” in which the coast-to-coast mass retailer Target offers something of a higher design aesthetic to customers who are slightly more upscale than those of rival chains.

Still, she noted that the United States can develop its appreciation for good design much further.

In Europe, fashion and design are the fabric of the culture, but they are not a part of the fabric of our domestic culture.

Indeed, luxury marketers believe that their success in establishing an aura of desirable is what will ultimately get them through the financial crisis. It may be counter-intuitive, but Abouchalache said that demand for a consumer product like Cheetos cereal is finite, in a way that the need for a luxury item is not.

“When it’s a tough day and you’re on the way home and you have to buy that handbag... it’s just a different factor driving that purchase. A customer could always use another purse.”

But to boost the bottom line, fashion firms are likely to focus now on pampering their best and most loyal customers.

The success of individualized luxury goods — such as designer clothes or eyewear — is a development that could keep a customer repeatedly coming back for more.

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