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New KPMG International survey finds evidence for shift in balance of global economic power

China is expected to overtake the US as the world's leading recipient of corporate investment in the next five years, and should become the most influential country in IT and telecoms, industrial products and mining, a new KPMG study of future global capital flows has found. India is likely to see the largest growth in its share of foreign investment overall, and should become the world leader for investment in manufacturing. But the European economies are expected to keep their attraction for investors, with the U.K. maintaining a very strong position, especially in financial services. László Csaba, KPMG's tax partner believes Hungary cannot avoid the impact of global trends either, therefore, it is particularly important to improve our competitiveness which can be a determining factor for us to have our share in the smaller pie of the region.

These conclusions come from a global survey of corporate investment plans carried out by KPMG International. Corporate investment strategists from over 300 of the largest multinational companies in 15 major economies were asked where they plan to invest in the next 12 months and in five years' time. They were also asked which countries they saw as dominant in their sector today, and which they expected to be dominant in 2013/14.

The results showed a move away from investments in the U.S., Japan, Singapore and the UAE, and a big increase in flows to Brazil, Russia, China and India (BRIC).

China should receive significant investments from 24 percent of corporates surveyed in 2013/14, up from 17 percent this year. Russia can expect investments from 19 percent in five years, up from 12 percent this year, and Brazil can expect investments from 14 percent, up from 10 percent.

India's share of investments is estimated to rise by 8 percent to 18 percent, the largest increase recorded and driven mainly by a major increase in investment in manufacturing. By 2013/14, India can expect investments in this sector from 25 percent of the manufacturing companies surveyed, and for two thirds of these companies it will be their first move into the country.

By contrast, the U.S. share of investments is expected to fall by 4 percent to 23 percent, still a very high proportion of global investment, but placing it behind China. The U.S. is also expected to give up its dominance of the mining, industrial products and IT/telecoms sectors, with China taking first place in each case.

According to László Csaba the Central European region may slightly be confined in this global investment competition: "This is mainly due to reasons outside the region. It is difficult to compete with the growth possibilities of the BRIC countries and even the proportion of the most developed countries will decrease. In addition, in the past 10-15 years, there were such one-off, non-recurring investment opportunities in this region which cannot be relied on anymore, such as the opening of the market in relation to the EU accession and the large-scale privatisation. The pace of economic growth will slightly slow down also. These factors prevail in Hungary also, therefore, we need to bear in mind that our competitiveness should be improved. It

may rearrange the picture if oil prices remain high for a longer period and our proximity to the major markets will again be important due to the costs of transportation. This may partly counterbalance the effects of cheaper workforce or less strict environmental regulations."

Speaking at KPMG's 2008 EMEA Tax Summit in Barcelona¹, where the survey was launched, Sue Bonney, Head of Tax for KPMG's EMA region and a partner in the U.K. firm said, "The majority of the people surveyed saw the next five years as a return to more normal patterns of investment, after a period when the U.S. has had a disproportionately high share of global investment funds.

"But a return to the market conditions of, say, 2003 does not explain the shift in influence that these strategists expect towards the BRIC economies. This does look like the beginnings of a fundamental change in the balance of economic power."

Although the major European economies can expect to be overtaken by the BRIC economies in their share of investment, this is only because the BRICs do particularly well. The U.K., Spain, and Italy can all expect an increase in foreign investment, and Germany can expect to maintain its current share.

The U.K. should remain the most popular developed economy outside the U.S., increasing its share of investment by 3 percent to 17 percent. In financial services, a traditionally strong sector for the U.K., the country is expected move from second place to equal first with the U.S. in terms of global investment.

"Our survey shows that corporate investors are already planning their responses to a shift in global economic power that has been happening for some time." said Sue Bonney.

"They help confirm the rise of the BRIC economies as viable alternative places to invest, taking funds primarily from the U.S. economy. The continued strength of the European economies may come as a surprise to some, but the fact that they hold up so well suggests that we may be developing a roughly equal balance of economic power between the Americas, Europe and Asia Pacific. That would indeed herald the start of an entirely new global economic game."

Key findings:

- *U.S. to give way to China in investment and influence*
- *Europe remains attractive to investors, especially U.K.*
- *New money to help fuel manufacturing growth in India*

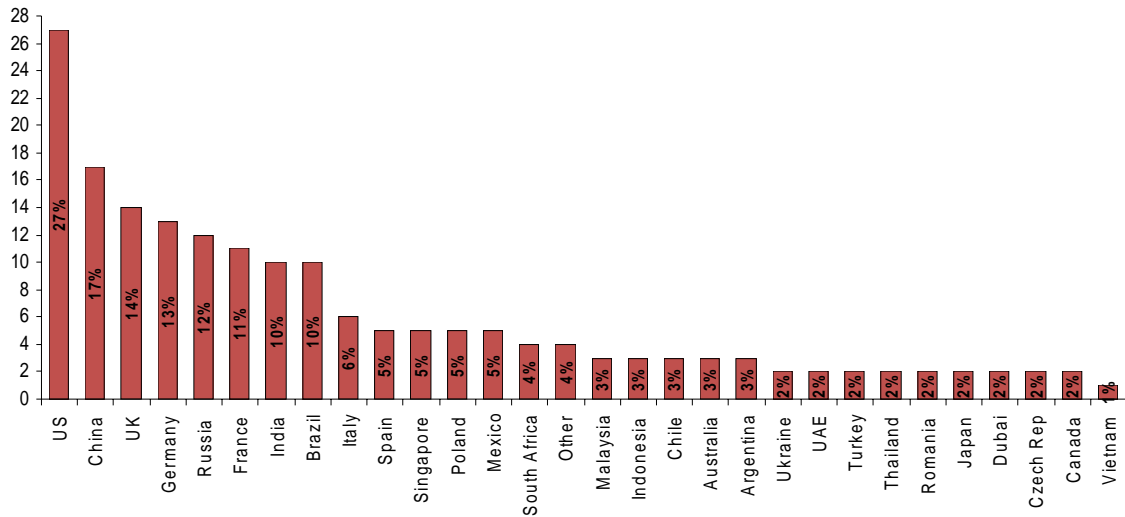
Note to Editors

- ¹ KPMG's 2008 Europe, Middle East and Africa Tax Summit in Barcelona is a meeting of KPMG member firms' clients, guests and partners to discuss international business issues with a focus on tax. It is the latest in a series of Tax Summits. Past events have taken place in Lisbon, Mexico City, Beijing, Buenos Aires and Berlin.
- KPMG International commissioned Lighthouse Research to carry out a study of future investment plans among large corporates in the U.S., U.K., Canada, China, India, the Netherlands, Brazil, Spain, Germany, Switzerland, Russia, Australia, Ireland, South Africa and Mexico. Three hundred and eleven interviews were carried out by Lighthouse in March and April 2008 with senior people responsible for investment strategy in these companies. A further 10 in-depth interviews were carried out with private equity and sovereign wealth funds.

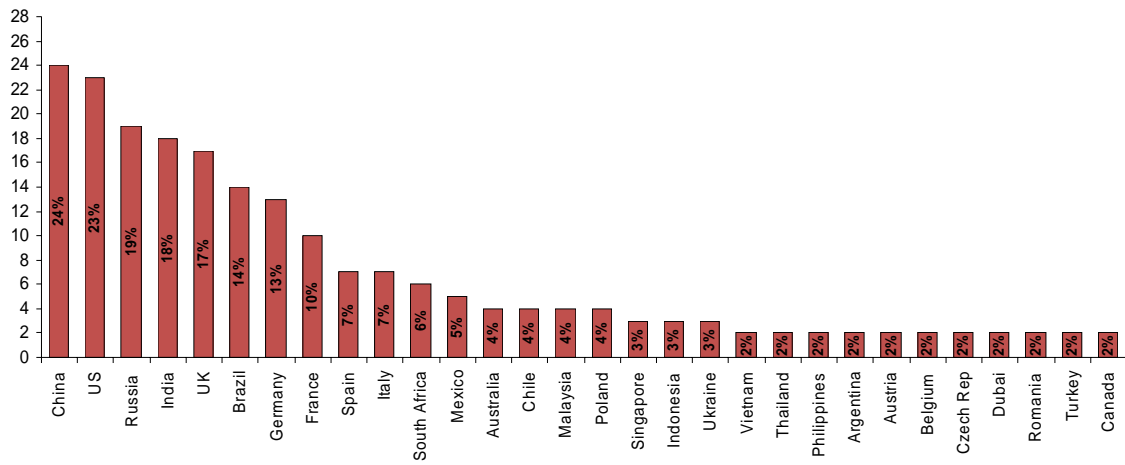
Appendix:

Source for all graphs, Global Corporate Capital Flows, 2008/9 to 2013/14, KPMG International.

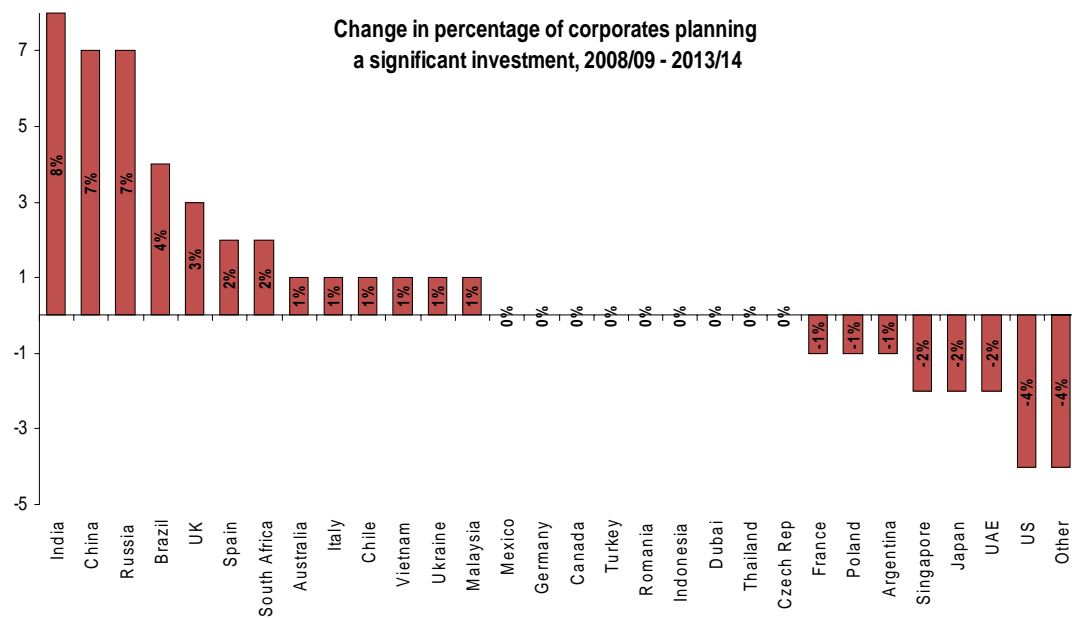
Percentage of companies expecting to make a significant investment in these countries in the next year



Percentage of companies expecting to make a significant investment in these countries in the next five years



Change in percentage of corporates planning a significant investment, 2008/09 - 2013/14



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