The problems that foreign direct investment are facing

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Economic ratings and financial indexes are crucial, but not everything is about them, to illustrate this I will give you one example from the European Parliament where not long time ago one of the Commissioners expressed his disapproval of China's expansion in Africa and tried to suggest the idea to the Chinese ambassador. The Chinese ambassador shrugged his shoulders in bewilderment and said that powerful Europe shouldn’t be worried by China, which is a developing country. This clearly illustrates how the indicators for economic development exceeded a long time ago the old criteria.

I will try to summarize in more understandable language today’s correlation and subordination of the foreign direct investment.

Firstly I will focus on risk factors for the growth of FDI

These are the protectionism, lower than expected growth in industrial countries, financial instability in the major economies and financial resources, global terrorism, instability in the petrol and other raw materials.

I will also make an analysis of FDI in different regions

The focus is moving from traditionally major locations to developing markets, including Asia and Eastern Europe, which are with the most favorable prospects. Latin America is recovering and Africa remains steady at recent levels. U.S. and the countries from the euro zone remain the most attractive foreign direct investment but they gradually loose their attractiveness. For example in 2002 foreign direct investments were 68 % to 32% in favor of developed countries, and in 2011 the result is 62 % to 38%.

<u>Half of the most attractive destinations for FDI</u> are in the developing world, most attractive destination remains China with 6% of the global FDI inflow. USA, India, Russia and Brazil are the following. Europe is not included in this ranking due to diversification of national economies.

<u>The expected leading sources of FDI</u> will remain the U.S., Britain, Germany and China, but the top 15 are also joined by South Africa, India, Brazil, Malaysia and South Korea. As an example of change in the market I will remind that in 2002 FDI are 72 % to 28% in favor of developed countries, but in 2011 they are 68 % to 32%.

<u>One of the essentials</u> to attract investments is to reform the public administration and to review the numerous unnecessary regulations and malpractices which often are precondition for corruption schemes. The International situation and foreign direct investment also solve many issues related to the international security.

We must address the issue of credit debt and (the power of the debtor), I say “the power of the debtor” because the debtor's financial problems of developing countries threatened to undermine the international financial system. It starts endless negotiations and difficult compromises to reschedule the debt. Solidarity is one word that we in the European Union hear more and more, but here I will give one example of how financial indicators and the old terminology is not working today. Greece for example is in crisis but the Greeks are not, and in contrary - Bulgaria member of the European Union which I represent is one of the best in observing the financial discipline, but Bulgarians groan under its economic problems. And not the people of Greece, Ireland, Cyprus and Portugal - countries in crisis are leaving for Bulgaria, but the Bulgarians are leaving for these "crisis" countries.

I'll say a few words about some of the indicators important for the FDI and about what investors are interested of

The threat of war, external shocks, blocked trade routes, market protectionism, duration of the reform and government commitment to reforms, stability of the economic environment, entry and exit barriers, transaction costs, property rights, contractual obligations, investment structure, NDP / net domestic product / per capita, inflation, current accounts as a percentage of the NDP, import / export fluctuations, export structure, terms of trade, the proportion debt to NDP, the ratio of debt service, debt structure, secondary (public) market of the governmental debt.

Specific, long-term, successful economic policy of transition must include at least the following:

Stable and convertible currency, stable financial institutions, legal rules, inalienable rights of ownership and entrepreneurial friendly environment, easy access to capital, and generally speaking, access to factors of production for domestic and foreign investors, transparent privatization, reasonable capital market and financial institutions, set of institutions governing contractual relations, corruption-free police, juridical system, courts and central and local government administration, a system of competitive and transparent conditions for private provision of public services in the field of social security, education, health and infrastructure .

What is of major interest for the investors?

Firstly, the security of their investments. This includes financial stability in the selected market, low corruption, low level of frauds, less bureaucracy, market knowledge.

<u>What are the main conclusions</u> of recent developments in the global economy. Given the state of the U.S. in the last few months / lowering the credit rating, the adoption of the law to increase the ceiling on government debt, the collapse of stock exchanges/, we can certainly say that the U.S. seems unable to conduct the global financial market. It is hardly a coincidence that emerged opinions that the U.S. can go bankrupt soon, which would lead to very serious disturbances in the economies worldwide. We hear voices for a new order in the global financial market, for new allocation of roles and responsibilities.

The idea of introducing a second world reserve currency /in addition to the U.S dollar/ finds more and more supporters. Many economists believe that it would reduce the consequences of any case of failure of the United States. And to understand me better - I would like to say that it is no secret that the U.S. economy, especially now rests because of the faith of the Chinese economy in the dollar.

And as a summary let me introduce you to the FDI prospects

The governments should establish a framework to ensure neutrality of the competition between large state enterprises and private companies. To ensure the neutrality of this competition may be used several techniques or policy measures as: restructuring of incentives in the management of state enterprises, effective enforcement of competition to avoid creating unequal conditions of competition.

I believe it came the moment when the political elite should escape from the vicious circle of demagoguery in which it is now. Politicians should be very clearly aware that they are not just mandate-holders and representatives of the people. They are much more than that. In these "interesting" times we live in, politicians are much more managers than ever before. And they should behave, think and act as such. Realistically they run "companies" with a huge capital where the shareholder is the people. Therefore they must be very, very good. One negative example, when Obama came to power he wanted big reforms. But who had to make those reforms - Ben Bernanke Federal Reserve Chairman and Timothy Geithner Treasury Secretary, people who contributed to the crisis, they were in those positions during J. Bush’s mandate. Obama also enrolled Lawrence Summers - the Finance Minister of Bill Clinton - who insisted the derivates to remain unregulated.

Here's an interesting (true story) - shortly after the crisis Queen Elizabeth II went to the London School of Economics (one of the 5 most elite universities of economics in the world) and asked a prominent professor: Professor, here there are so many smart and skilled people all day dealing with the economy. How come none of them foreseen the crisis? The answer, which the professor wanted to say, was, "but we do only what we are getting paid for...." well he didn’t dare to say that and kept quiet. The professor shares this story in an interview much later.

I suggest that we, at this forum, have the strength and courage to honestly say our problems because it will be the first step towards their solution, or as Confucius says:

Recognizing a problem is the first step to solving it!

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