

Press release

Global FDI set to surge past US\$1trn in 2006, despite fears of backlash

September 5, 2006—World foreign direct investment (FDI) inflows in 2006 will reach some US\$1.2trn, a 22% increase over the 2005 total of US\$955bn, and the first time since 2000 that global FDI will have surpassed the US\$1trn mark, according to *World Investment Prospects to 2010: Boom or Backlash*, released today. The report, published jointly by the Economist Intelligence Unit and The Columbia Program on International Investment (CPII), predicts that FDI flows will rise moderately through to the end of decade to US\$1.4trn. However, it also cites a range of risks that could undermine this growth, and a backlash against FDI cannot be ruled out.

The report, which covers 82 countries, includes estimates of FDI flows in 2006, and also provides forecasts until 2010 for global and regional investment trends. Highlights include a contribution by **Jeffrey D. Sachs**, Director of the Earth Institute at Columbia University, on the policies that governments in developing countries should adopt to attract more FDI to promote their economic development as encapsulated in the United Nations' Millennium Development Goals (MDGs). Says Sachs: "Increased FDI inflows will be vital to success in meeting the MDGs. FDI is needed to ensure the adequate job creation, capital accumulation and export growth required to end extreme poverty." Active investment promotion in particular is important.

Although FDI flows are expected to grow further, there are various indications that a number of developed countries (and increasingly also emerging markets) are re-evaluating the balance of costs and benefits of FDI. Warns **Karl P. Sauvant**, Executive Director of Columbia's Program on International Investment: "It would be ironic if developed countries, which have led the liberalization drive in FDI policies during the past two decades, were to initiate a backlash against FDI."

"We foresee neither boom nor backlash, but a period of constrained globalization. But there remain a range of potential risks—economic, political and geopolitical—which could undermine the globalization process, and with it FDI flows," commented **Robin Bew**, Editorial Director for the Economist Intelligence Unit.

FDI inflows (US\$ bn)

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|------------------------------|-------|---------|---------|---------|---------|---------|
| In current US\$ terms | | | | | | |
| World total | 954.8 | 1,165.0 | 1,222.5 | 1,285.3 | 1,342.9 | 1,407.3 |
| Rate of growth (%) | 19.1 | 22.0 | 4.9 | 5.1 | 4.5 | 4.8 |
| Developed countries | 555.6 | 754.3 | 814.8 | 880.7 | 929.0 | 979.4 |
| Rate of growth (%) | 14.4 | 35.8 | 8.0 | 8.1 | 5.5 | 5.4 |
| Emerging markets | 399.2 | 410.6 | 407.7 | 404.7 | 413.9 | 427.9 |
| Rate of growth (%) | 26.3 | 2.8 | -0.7 | -0.7 | 2.3 | 3.4 |

Source: *World Investment Prospects to 2010: Boom or Backlash*

The main findings include the following:

- **World foreign direct investment inflows surge in 2006, and will continue rising through to 2010.** In 2006 FDI flows will reach some US\$1.2trn, a 22% increase over 2005. Thereafter, global FDI flows will continue to rise, but the rate of growth is expected to slow. As a consequence, it will be 2010 before FDI flows again match the peak seen in 2000.
- **Emerging markets will disappoint.** The pattern of 2004-05, when emerging markets drove the global FDI recovery, will be reversed in 2006 and beyond. The bulk of inflows will be in the form of M&A between developed markets.
- **The US is expected to be the world's most powerful FDI magnet.** The US will attract almost one-quarter of the world's FDI in 2006-10. But it is Europe which is the most outward looking region, with the EU remaining the largest direct investor in foreign markets. FDI flows will remain geographically concentrated. The top ten recipient countries are expected to account for more than two-thirds of global FDI inflows. In general, the developed world will attract most investment, but China, Brazil, Mexico, Russia and India all make it into the top 20.
- **China will see the fastest rates of FDI growth.** While the emerging markets as a whole will disappoint, FDI into Asia is expected to rise at rates comparable to those experienced in the mid-1990s. China will be central to the story. A large pipeline of commitments suggests that FDI into China will exceed US\$80bn in 2006 and inflows expected to remain at or above that level over the medium term.
- **Risks of an FDI backlash remain.** Crossborder M&A deals are increasingly encountering resistance as host countries fear a threat to their national security, cultural identity or economic development. The European Commission's takeover directive was watered down compared to initial drafts, while there are two bills under discussion in the US Congress which would subject foreign takeovers to more rigorous scrutiny. Meanwhile, some emerging market governments have been questioning the terms of pre-existing contracts with foreign multinational firms operating in their countries. While these reactions to FDI do not yet add up to a backlash, the dangers of complacency are clear. Attitudes to FDI have changed in the past, and could do so again.

The full version of ***World Investment Prospects to 2010*** is available from <http://www.store.eiu.com> and is priced at £50/\$95

A **free Special Edition** is available from www.eiu.com/wip or www.cpii.columbia.edu

Copies are available for members of the press from the PR contacts below.

FDI Trends Webcast: Visit www.eiu.com/world or www.cpii.columbia.edu for views and analysis from the authors of *World Investment Prospects*. Registration for the webcast will begin on September 1st. The webcast itself will begin at 11:00am EDT on September 5th.

For further information please contact:

| Economist Intelligence Unit | Columbia University |
|---|---|
| Sheila Allen: +44 (0)20 7576 8188 or sheilaallen@eiu.com | Clare Oh, Office: 1 (212) 854-5479 or mobile: (646) 415-2479, E-mail: coh@ei.columbia.edu |
| Laza Kekic: +44 (0)20 7576 8320 or lazakekic@eiu.com | Robert Hornsby, Office: 1 (212) 854-9752 E-mail: rh2239@columbia.edu |
| | Karl P. Sauvant, office: 1 (212) 854-0689 or mobile: 1-646-724-5600 or Karl.Sauvant@law.columbia.edu |

About the Economist Intelligence Unit

The Economist Intelligence Unit is the business information arm of The Economist Group, publisher of *The Economist*. Through our global network of over 500 analysts, we continuously assess and forecast political, economic and business conditions in 195 countries. As the world's leading provider of country intelligence, we help executives make better business decisions by providing timely, reliable and impartial analysis on worldwide market trends and business strategies. More information about the Economist Intelligence Unit can be found on the Web at www.eiu.com.

About the Columbia Program on International Investment

The Columbia Program on International Investment (CPII), headed by Karl P. Sauvant, is a joint undertaking of the Columbia Law School, under Dean David M. Schizer, and The Earth Institute at Columbia University, directed by Jeffrey D. Sachs. It seeks to be a leader on issues related to foreign direct investment (FDI) in the global economy. The CPII focuses on the analysis and teaching of the implications of FDI for public policy and international investment law. Its objectives are to analyze important topical policy-oriented issues related to FDI, develop and disseminate practical approaches and solutions, and provide students with a challenging learning environment. More information about the Program can be found on the Web at www.cpii.columbia.edu.

Foreign direct investment inflows (US\$ bn)

| | 2005 | 2006 | 2010 | 2005 | 2006 | 2010 |
|-------------------------------|-------|-------|-------|------|------|------|
| North America | | | | | | |
| US | 109.8 | 188.9 | 376.6 | 6.7 | 9.5 | 14.3 |
| Canada | 33.8 | 36.8 | 41.9 | 2.3 | 3.8 | 4 |
| Western Europe | | | | | | |
| Austria | 8.8 | 7.4 | 10.3 | 3 | 3.6 | 4.4 |
| Belgium | 23.3 | 45 | 23.5 | 2.8 | 2.1 | 2.8 |
| Cyprus | 1.2 | 1.5 | 0.9 | 1.3 | 2.6 | 1.6 |
| Denmark | 5 | 8.2 | 6 | 1.1 | 1.5 | 1.8 |
| Finland | 4.6 | 4.9 | 5.8 | 33.4 | 21 | 22 |
| France | 63.5 | 68.3 | 75.2 | 4.3 | 7.2 | 10.2 |
| Germany | 32 | 25.6 | 46.8 | 0.2 | 0.2 | 0.4 |
| Greece | 0.6 | 1.6 | 2.4 | 1.6 | 2.9 | 6.8 |
| Ireland | -21.4 | 12.6 | 26.7 | 3.7 | 3.3 | 3.8 |
| Italy | 19.2 | 28.2 | 24.5 | 2.4 | 2.9 | 3.7 |
| Luxembourg | 43.7 | 64 | 93 | | | |
| Netherlands | 42.9 | 41 | 57.1 | 4.7 | 4.8 | 5.8 |
| Norway | 3.3 | 2.7 | 5.1 | 15.2 | 17.2 | 19.9 |
| Portugal | 3.1 | 4.1 | 6 | 7.2 | 9.7 | 11.8 |
| Spain | 22.8 | 25.1 | 32.2 | 10.2 | 4 | 4.5 |
| Sweden | 13.4 | 28.2 | 20.2 | 0.7 | 0.7 | 0.8 |
| Switzerland | 6.5 | 7.1 | 13.1 | 0.4 | 0.6 | 0.6 |
| Turkey | 9.7 | 10 | 10 | 0.9 | 1 | 1.3 |
| UK | 164 | 130.5 | 75.4 | 1.8 | 1.5 | 1.2 |
| Eastern Europe | | | | | | |
| Azerbaijan | 1.7 | 1.8 | 1.7 | 17.8 | 15 | 21 |
| Bulgaria | 2.6 | 2.6 | 1.8 | 2.5 | 2.3 | 2 |
| Croatia | 1.6 | 1.7 | 2.1 | 3 | 1.4 | 2.3 |
| Czech Republic | 11 | 7.5 | 4.4 | | | |
| Estonia | 2.9 | 1 | 1.2 | 3.8 | 4.2 | 5.5 |
| Hungary | 6.6 | 4.5 | 4.7 | 2.2 | 2.5 | 2.1 |
| Kazakhstan | 1.7 | 4.8 | 4.5 | 0.9 | 1 | 1.4 |
| Latvia | 0.6 | 0.7 | 0.7 | 5.4 | 5.8 | 4.1 |
| Lithuania | 1 | 1 | 1.2 | 5.4 | 5.8 | 4.1 |
| Poland | 7.7 | 8.3 | 8.6 | 6.1 | 8.6 | 6 |
| Romania | 7.9 | 8.9 | 4.3 | 1.5 | 1.8 | 0.9 |
| Russia | 14.6 | 21.5 | 25 | 0.1 | 0.1 | 0.1 |
| Serbia | 1.5 | 3.2 | 1.6 | 0.1 | 0.2 | 0.5 |
| Slovakia | 1.9 | 2.5 | 2 | 1.3 | 1.5 | 1.6 |
| Slovenia | 0.5 | 0.4 | 0.7 | 3 | 2.4 | 2.4 |
| Ukraine | 7.8 | 4 | 5 | 2.7 | 2.2 | 2.1 |
| Asia & Australasia | | | | | | |
| Australia | -37.2 | 8.2 | 17.4 | 2.3 | 2.5 | 2.5 |
| Bangladesh | 0.5 | 0.5 | 0.7 | 0.9 | 1.4 | 1.8 |
| China | 79.1 | 86.5 | 80 | 6.3 | 5.7 | 7.4 |
| Hong Kong | 35.9 | 37.3 | 31.2 | 0.5 | 2.7 | 1 |
| | | | | 14.5 | 13 | 7.5 |