



# Press release

## Global FDI flows set to dip in 2008 after hitting a new record in 2007

### The longer-term FDI outlook is favourable, although risks loom large

September 5, 2007—Global foreign direct investment (FDI) inflows in 2007 are set to reach US\$1.5trn, above the record total of US\$1.4trn achieved in 2000, according to *World Investment Prospects to 2011: Foreign direct investment and the challenge of political risk*. The report, produced by the Economist Intelligence Unit in co-operation with the Columbia Program on International Investment (CPII), predicts that there will be a modest and temporary decline in global FDI inflows in 2008, on the back of slowing mergers and acquisitions (M&As) activity, before a resumption of steady growth in 2009-11.

Investors are bullish about the medium-term global FDI outlook, and appear to be sanguine about financial risks, according to a global survey of 602 executives conducted for this report. However, the survey also reveals significantly heightened political risk perceptions among investors. This is especially so for emerging markets, where all four forms of political risk (risks of political violence, FDI protectionism, and threats associated with geopolitical tensions and governmental instability) are seen as increasing over the next five years. For developed countries, there is widespread concern about rising FDI protectionism, the threat of terrorism in the US and the UK and about the impact of geopolitical tensions, ranging from the effects of possible conflict with Iran and Islamic radicalism, to Russian-Western frictions. The energy sector in particular is affected by many of these risks. According to **Jeffrey D. Sachs**, Director of the Earth Institute at Columbia University and a contributor to the report, "the political risks facing FDI in the energy sector are likely to continue to rise unless a new co-operative global framework is established."

The report predicts that the recent global financial turmoil will have only a limited impact on FDI flows, primarily through a dampening impact on crossborder M&As. "Although a variety of macroeconomic risks loom large, the continuing healthy fundamentals of the world economy suggest that the effects of financial turbulence will be contained", comments **Robin Bew**, Editorial Director of the Economist Intelligence Unit.

#### Foreign direct investment inflows (US\$ bn)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>World FDI inflows</b>	<b>563.4</b>	<b>730.2</b>	<b>971.7</b>	<b>1,335.1</b>	<b>1,474.7</b>	<b>1,406.4</b>	<b>1,470.3</b>	<b>1,536.8</b>	<b>1,604.0</b>
% change, year on year	-8.8	29.6	33.1	37.4	10.5	-4.6	4.5	4.5	4.4
% of GDP	1.5	1.8	2.2	2.8	2.8	2.5	2.5	2.4	2.4
<b>FDI inflows to developed countries</b>	<b>354.6</b>	<b>379.5</b>	<b>546.8</b>	<b>824.4</b>	<b>940.2</b>	<b>879.0</b>	<b>925.5</b>	<b>972.6</b>	<b>1017.3</b>
% change, year on year	-15.8	7.0	44.1	50.7	14.0	-6.5	5.3	5.1	4.6
% of GDP	1.3	1.2	1.7	2.4	2.6	2.3	2.3	2.3	2.4
% of world total	62.9	52.0	56.3	61.7	63.8	62.5	62.9	63.3	63.4
<b>FDI inflows to emerging markets</b>	<b>208.9</b>	<b>350.7</b>	<b>424.9</b>	<b>510.7</b>	<b>534.6</b>	<b>527.4</b>	<b>544.8</b>	<b>564.2</b>	<b>586.7</b>
% change, year on year	6.0	67.9	21.1	20.2	4.7	-1.3	3.3	3.6	4.0
% of GDP	2.4	3.4	3.5	3.6	3.3	2.9	2.7	2.6	2.4
% of world total	37.1	48.0	43.7	38.3	36.2	37.5	37.1	36.7	36.6

Source: *World Investment Prospects to 2011*

**Key expected medium-term trends for FDI include:**

- After a brief retrenchment, crossborder M&As will continue to drive global FDI.
- Despite growing protectionist sentiment, the US is expected easily to retain its position as the world's leading FDI recipient in 2007-11.
- Among emerging markets, China will remain in 2007-11 by far the main recipient of FDI flows, with almost 6% of the global total and 16% of projected inflows into emerging markets.
- Following decades of liberalisation, FDI protectionism is on the rise in many parts of the world and there is a danger that it will intensify. Crossborder M&As are coming under increased scrutiny. A large proportion of survey respondents reported that they had experienced blocked M&A deals.
- There is likely to be some acceleration of the relocation of labour-intensive manufacturing to emerging markets, although this is unlikely to be as dramatic as many observers hope or fear.
- The offshoring of services will accelerate—which will also feed protectionist sentiment, although this form of internationalisation is accompanied by relatively modest capital flows.
- Outward investment by leading emerging markets is likely to continue to gain in importance.

**The virtuous circle of globalisation**

The trend towards increased internationalisation of companies will continue. The survey results showed that firms that exhibited a high degree of transnationalisation—those with more than 25% of revenue or employees outside their home markets—had better than average financial performance. The experience and confidence gained from operating intensively in foreign destinations also led to a more sanguine view of some types of political risk. Thus, perhaps ironically, more intensive internationalisation appeared to be associated with less fear of some of the consequences of greater exposure to globalisation.

*World Investment Prospects to 2011* also presents the first final estimate and analysis of 2006 FDI flows, as well as detailed five-year forecasts for 82 leading FDI recipient countries of investment and market trends. This also includes the latest results of the Economist Intelligence Unit's forward-looking Business Environment Index, which measures FDI determinants.

***World Investment Prospects to 2011*** is available from [www.eiu.com/wip](http://www.eiu.com/wip) or [www.cpii.columbia.edu](http://www.cpii.columbia.edu)

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

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**The Emerging Markets Conference, 24-25 September**

The main findings of the report will be presented at the Economist Conference's Emerging Market Summit at the Millennium Hotel London, on the 24-25th September. *For more information:* <http://www.economistconferences.com>

**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](http://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](http://www.cpii.columbia.edu).

**Foreign direct investment inflows**

	2006	2007-11 av				2006	2007-11 av		
	(US\$ bn)	(US\$ bn)	Rank	% of world total		(US\$ bn)	(US\$ bn)	Rank	% of world total
US	183.6	250.9	1	16.75	Finland	3.7	5.7	42	0.38
UK	137.7	112.9	2	7.54	Czech Republic	6.0	5.4	43	0.36
China	78.1	86.8	3	5.79	Hungary	6.1	5.1	44	0.34
France	86.9	78.2	4	5.22	New Zealand	8.1	5.0	45	0.34
Belgium	72.5	71.6	5	4.78	Ukraine	5.2	4.9	46	0.33
Germany	43.4	66.0	6	4.41	Algeria	3.2	4.7	47	0.32
Canada	69.0	63.2	7	4.22	Austria	0.2	4.0	48	0.27
Hong Kong	42.9	48.0	8	3.20	South Africa	0.0	3.2	49	0.21
Spain	20.2	44.9	9	2.99	Qatar	2.9	3.1	50	0.21
Italy	39.0	41.6	10	2.77	Pakistan	4.3	2.9	51	0.19
Netherlands	3.8	38.5	11	2.57	Serbia	5.6	2.8	52	0.19
Australia	24.7	37.8	12	2.52	Bulgaria	5.2	2.6	53	0.17
Russia	28.7	31.4	13	2.10	Croatia	3.6	2.6	54	0.17
Brazil	18.8	27.5	14	1.84	Philippines	2.3	2.4	55	0.16
Singapore	25.7	27.1	15	1.81	Slovakia	4.2	2.2	56	0.15
Sweden	27.2	26.1	16	1.74	Jordan	2.2	2.1	57	0.14
Mexico	19.0	22.7	17	1.51	Nigeria	2.5	2.1	58	0.14
India	17.5	20.4	18	1.36	Peru	3.5	2.0	59	0.14
Ireland	12.8	20.3	19	1.35	Angola	2.2	1.9	60	0.12
Turkey	20.1	20.0	20	1.33	Tunisia	2.7	1.8	61	0.12
Switzerland	26.0	18.2	21	1.22	Libya	1.5	1.6	62	0.11
Japan	-6.8	13.3	22	0.89	Azerbaijan	-0.7	1.6	63	0.11
UAE	16.0	12.8	23	0.85	Dominican Republic	1.2	1.6	64	0.10
Poland	14.5	12.6	24	0.84	Morocco	1.4	1.5	65	0.10
Chile	8.1	10.9	25	0.73	Greece	5.4	1.5	66	0.10
Portugal	7.4	9.1	26	0.61	Ecuador	2.1	1.5	67	0.10
Thailand	9.7	8.9	27	0.59	Estonia	1.6	1.4	68	0.09
Denmark	6.3	8.2	28	0.55	Cyprus	1.5	1.3	69	0.08
Saudi Arabia	5.3	7.9	29	0.52	Lithuania	1.8	1.2	70	0.08
Romania	11.4	7.7	30	0.51	Latvia	1.6	1.0	71	0.07
South Korea	3.6	7.2	31	0.48	Slovenia	0.4	1.0	72	0.07
Taiwan	7.4	7.1	32	0.47	Venezuela	-0.5	1.0	73	0.07
Israel	14.2	7.0	33	0.47	Costa Rica	1.4	1.0	74	0.07
Malaysia	6.1	6.8	34	0.45	Bahrain	1.2	1.0	75	0.06
Kazakhstan	6.1	6.7	35	0.45	Bangladesh	0.6	0.7	76	0.05
Indonesia	7.5	6.6	36	0.44	El Salvador	0.2	0.6	77	0.04
Argentina	4.8	6.5	37	0.44	Cuba	0.6	0.5	78	0.04
Vietnam	4.1	6.5	38	0.44	Kuwait	0.1	0.4	79	0.03
Norway	5.8	6.4	39	0.43	Iran	0.3	0.4	80	0.02
Colombia	6.3	6.3	40	0.42	Sri Lanka	0.5	0.3	81	0.02
Egypt	10.0	6.0	41	0.40	Kenya	0.1	0.1	82	0.01

Source: *World Investment Prospects to 2011*.