

Press release

China will be top emerging market for FDI inflows to 2010; India and Japan will remain laggards

September 5, 2006—Developing Asia attracted a record high of US\$177bn in foreign direct investment (FDI) inflows in 2005, by far the highest emerging-market regional total, according to *World Investment Prospects to 2010: Boom or Backlash*, released today by the Economist Intelligence Unit and the Columbia Program on International Investment (CPII). “China was far and away the main FDI recipient among emerging markets and will attract almost US\$87 billion this year,” observes Laza Kekic, Director, Country Forecasting Services at the Economist Intelligence Unit and one of the report’s editors. China’s strong performance does not mean, however, that other parts of Asia will get less investment. Notes Karl P. Sauvart, Executive Director of the CPII and the other editor of the report, “FDI is not a zero-sum game; for example, we forecast that the gap between FDI inflows to China and the ASEAN countries will narrow during the period 2006-10.”

FDI inflows into Asia and Australia (US\$ bn)

	2005	2006	2010
In current US\$ terms			
Inflows	146.0	199.4	227.5
% of world total	16.0	18.1	17.3
China*	79.1	86.5	80.0
Hong Kong*	35.9	37.3	31.2
Singapore*	33.4	21.0	22.0
India*	6.7	9.5	14.3

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

*Top four recipients of FDI in region in terms of 2006 performance

The main findings include the following:

- **China dominates FDI inflows in emerging markets.** China was by far the main FDI recipient among emerging markets in 2005, as large financial sector investments boosted FDI inflows to the country to almost US\$80bn. A large pipeline of commitments suggests that FDI into China is likely to reach almost US\$87bn in 2006.
- **India still lags behind.** India has yet to build a critical mass in FDI, having only initiated investment-attracting reforms in 1991. Despite the country’s successful positioning as a business processing and IT outsourcing hub, these activities often translate into Indian services sector exports via third-party transactions—not FDI.
- **ASEAN will not lose out to China.** There is strong concern among members of ASEAN that China is diverting FDI from their countries, which at least until the late-1990s crisis were significant beneficiaries of FDI inflows to the region. These concerns are misplaced. FDI is not a zero sum game and many ASEAN countries are attractive places from which to service Chinese demand. In addition, as Chinese wages rise, low-cost manufacturing will become increasingly competitive in some ASEAN markets. We therefore forecast that the gap between FDI inflows into China and the ASEAN countries will narrow over the remainder of the decade.

- **Japan to miss FDI target.** Japan has set a goal of increasing the stock of inward FDI to 5% of GDP by 2010, as a follow-up to the current target of reaching 2.5% by the end of 2006. But the report predicts that this target is unlikely to be met. A complicated regulatory environment, high costs and residual hostility to foreign ownership of important Japanese companies will militate against larger inflows.

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.

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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.