

Press release

FDI to rise sharply in Russia, but will fall in new EU members from 2008

September 5, 2006—Foreign direct investment (FDI) inflows into the transition economies of eastern Europe and the former Soviet Union reached a record total of US\$74bn in 2005, a 12% increase on 2004, 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). “Russia will become the leading recipient of FDI in the region to 2010, but FDI into the new EU member states will slow,” predicts Laza Kekic, Director, Country Forecasting Services at the Economist Intelligence Unit and one of the editors of the report. “In any event,” adds Karl P. Sauvart, Executive Director of the CPII and the other editor of the report, “fears in some western European countries of widespread dislocation of production to central and eastern Europe are misplaced, as the share of these countries in total EU25 inflows in 2006-10 is forecast to be only 5%.”

FDI inflows into central and eastern Europe (US\$ bn)

	2005	2006	2010
In current US\$ terms			
Inflows	74.3	77.6	73.4
% of world total	7.8	6.7	5.2
Russia*	14.6	21.5	25.0
Romania*	7.9	8.9	4.3
Poland*	7.7	8.3	8.6

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

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

The main findings include the following:

- **FDI in eastern Europe and former Soviet Union reaches record total.** FDI inflows into the transition economies of eastern Europe and the former Soviet Union reached a record total of US\$74.3bn in 2005, a 12% increase on 2004. High commodity prices encouraged significant increases in FDI in the resource-rich countries of the region, notably Russia, Azerbaijan and Kazakhstan. The completion or near-completion of large-scale privatisation sales in some countries also boosted inflows.
- **Russia will take the lead.** In 2006 FDI flows to the transition economies are expected to increase slightly from their 2005 peak. Russia, until recently a notable FDI laggard, is expected to become the main destination country in the region through to 2010 (although as a share of GDP and in per-capita terms inflows will still remain relatively modest). Implementation of reforms will remain a serious problem, but Russia is expected to record an improvement in its business environment in the medium term and WTO membership, expected in the next couple of years, will have a positive impact. Annual average FDI inflows into Russia are projected at about US\$22bn during the next five years.
- **FDI to slow in the new EU member states.** FDI inflows into the eight EU member states that joined the EU in 2004 are expected to peak in 2007, as some outstanding privatisations are completed, and fall back afterwards to an annual average of about US\$23bn in 2008-10. The

danger of a diversion of cost-sensitive forms of FDI to even cheaper destinations looms larger than any promise of much more relocation to these countries of investment from the West.

- **Balkans to attract more FDI.** Investment into the Balkans—which has been rising strongly in recent years, mainly owing to large inflows into Romania—is expected to grow strongly in 2006, to a projected US\$18bn.
- **Eastern Europe’s share of the EU’s FDI inflows will remain low.** Despite widespread fears in some west European states of a diversion of investment (“dislocation”) to the poorer new members, the share of the new members in total EU25 FDI inflows in 2006-10 is forecast to be only 5%. Further positive changes to business environments associated with EU membership will be small. Some possible further improvement in risk perceptions and the impact on FDI of fully joining the single market will largely be offset by the effects of higher wages; the adoption of business-inhibiting aspects of EU rules; and the possibility of a post-accession slowdown in reform momentum.

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.