

Press release

Investors remain bullish about Asia, despite emphasis on political risk

September 5, 2007— Developing Asia received a record US\$212bn in FDI inflows in 2006—an increase by 22% on 2005, 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), charts global FDI trends over the next five years, including on the basis of a global survey of more than 600 direct investors. In line with global trends, and slowdown in M&A activity, FDI growth into the region will slow sharply in 2007. "Although FDI inflows into Asia will remain robust over the medium term, a combination of global and domestic factors means that the fast pace of growth in FDI inflows of recent years will not be sustained," observes **Laza Kekic**, Director, Country Forecasting Services at the Economist Intelligence Unit and one of the report's editors.

China will maintain its lead

China will remain by far and away the main FDI recipient in the region due to the size of its market and strong growth prospects. China's price competitiveness will be maintained, and on baseline assumptions, there seems little risk of a massive relocation of FDI from China to cheaper locations. FDI into China is likely to rise slightly in 2007 to some US\$80bn and to grow steadily thereafter to surpass US\$90bn by 2010. However, there are also some considerations that will keep FDI below potential, as well as downside risks to the baseline forecast. "Although China will remain open to foreign capital, there are signs of unease in China with what some are beginning to see as excessive dependence on FDI, similar to the increasing FDI protectionism that is occurring elsewhere", notes **Karl P. Sauvant**, Executive Director of the CPII and the other editor of the report.

The survey respondents rated China as the most important market for business in 2007-11: 52% expect the market to be of "critical importance" to their investment strategies over the coming five years, and over 85% expect it to be either critically important or to be at least of some importance in their investment plans. India and the rest of emerging Asia are also of great interest, well ahead of other emerging markets - although actual FDI inflows are likely to fall short of plans. Despite ongoing globalisation, the survey responses also reflect the well-known fact that much of FDI remains regional in nature. Thus Asian firms expect China, India and the rest of Asia to be of greater importance than does the sample as a whole.

FDI inflows into developing Asia

	2004	2005	2006	2007	2008	2009	2010	2011
Developing Asia								
Inflows (US\$ bn)	138.6	174.1	212.4	218.2	224.0	234.8	244.5	254.2
% of world total	19.1	18.0	16.3	14.9	16.0	16.1	16.1	16.0
% change, year on year	47.5	25.6	22.0	2.7	2.7	4.8	4.1	4.0
% of GDP	2.9	3.2	3.3	2.9	2.6	2.4	2.3	2.1
China								
Inflows (US\$ bn)	54.9	79.1	78.1	79.5	84.1	86.5	90.9	92.9
% of regional total	29.5	54.9	32.7	28.8	30.6	30.0	30.0	29.4
% change, year on year	16.7	44.0	-1.3	1.8	5.8	2.8	5.1	2.2
% of GDP	2.8	3.5	2.9	2.4	2.2	1.9	1.7	1.5

Source: *World Investment Prospects to 2011*

Prospects for India and the ASEAN countries

Despite strong growth in FDI inflows in 2005-06, India has yet to build a critical mass in FDI. The services sector continues to be the main target for FDI in India. By contrast, FDI in manufacturing actually declined in 2006 to US\$1.5bn, compared with US\$1.8bn in 2005, reflecting the fact that the environment for manufacturing FDI is not yet attractive enough. FDI inflows into India are set to grow further, but will still remain well below potential because of persistent business environment problems, among which inflexible labour laws and poor infrastructure feature prominently. The ASEAN economies are on average expected to perform well, despite signs of FDI protectionism and business environment problems in some countries. The FDI gap between China and the ASEAN countries will narrow. FDI inflows into China were in 2002-06 80% higher than inflows into the ASEAN ten; in 2007-11 the difference is projected to narrow to 45%.

The role of political risk

Political risks such as the threats from political violence were of less concern to investors in Asia than in some other emerging market regions. Also the risk of FDI protectionism in Asia as a whole, although not negligible, appeared to be less salient than elsewhere. However, the experience of companies operating in Asia suggests that they face a host of regulatory and political risks, which partly mar the abundant business opportunities. A significant proportion of companies operating in the region reported suffering one or more of the following: an inability to convert or transfer currency; contract cancellations or official requests for renegotiations; payment defaults by a government buyer; some form of asset expropriation; blocked M&A deals and cancellation of import or export licences. Some 40% of the survey respondents believed that Asia would experience during the next five years a major political crisis that will disrupt business. China was rated among the riskiest countries, underlining an apparent general disconnect between a benign economic outlook and heightened political risk perceptions.

Political democracy and FDI

The responses to questions on the relationship between FDI and democracy were mixed. On whether a country being a democracy had a significant impact on their investment decisions in emerging markets, just over half said yes and 45% said no. With respect to the proposition that in emerging markets authoritarian regimes may make for a more stable and predictable environment for business, 38% disagreed, 31% neither agreed nor disagreed and almost 30% agreed. Only some 20% agreed with the statement that the fact that China is an autocracy and India a democracy helps explain why China attracts so much more FDI than India; the vast majority of respondents disagreed.

World Investment Prospects to 2011 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.

For further information please contact:

Economist Intelligence Unit

Joanne McKenna (PA to Editorial Director & Press Liaison):
+44 (0)20 7576 8188 or joannemckenna@eiu.com

Laza Kekic (Report Co-editor; Director for Country
Forecasting Services): +44 (0)20 7576 8320 or
lazakekic@eiu.com

Columbia University

James O'Neill (Director, Office of Public Affairs, Columbia
Law School): +1 (212) 854 2650 or
James.Oneill@law.columbia.edu

Karl P. Sauvant (Report Co-editor; Executive Director of the CPII):
+1 (212) 854-0689 or Karl.Sauvant@law.columbia.edu

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.

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

	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*.