Book Review


The World Investment Report 2010 is the twentieth anniversary edition of the World Investment Report focusing on climate change, in particular the role of transnational corporations. There are four chapters in this issue: Global Trends in FDI, Regional Trends in FDI, Recent Policy Developments and Leveraging Foreign Investment for a Low-Carbon Economy.

Chapter 1, Global Trends in FDI is divided into three subsections. The first is on Global Trends in FDI Flows: from a Steep Decline to a Slow Recovery. Global FDI witnessed a modest, but uneven, recovery in the first half of 2010. Developing and transition economies absorbed half of FDI while developing and transition economies accounted for a quarter. FDI by components showed a slow recovery, sustained by a resumption of equity investment as well as increases in intra-company loans and reinvested earnings. The collapse of financial markets has curtailed transnational corporations’ (TNCs) financing of mergers and acquisitions (M&A). M&As experienced faster recovery while greenfield investments became more resilient during the crisis. Services and the primary sectors continued to capture an increasing share of FDI. In the primary sector, energy investment worldwide plunged. The economic recession caused decline in use of energy in 2009 for the first time since 1981.

The second section is titled International Production: The Growing Role of Developing and Transition Economies. The economic and financial crisis significantly affected TNCs’ operations abroad. In terms of employment, an estimated 80 million workers were employed in TNCs’ foreign affiliates in 2009, accounting for about 4 per cent of the global workforce. The majority of jobs were located in developing economies, largest being China with 20 per cent of the world’s total employees in foreign affiliates. In developed countries, employment of foreign affiliates in the services sector gained importance as a result of structural changes in the economies. TNCs in developing and transition-economies are among the world’s top 100.

The third section is titled FDI Prospects: A Cautious Optimism outlines favourable trends such as improvement of macroeconomic conditions, recovering corporate profits and stock market valuations, and policies promoting openness to FDI which continued to boost business confidence. Some of the
key factors identified as influencing future FDI flows was macroeconomic (growth, domestic investment), firm-level factors, policy factors liberalisation of investment regimes) and risk and uncertainties (stability of the global financial system, fiscal deficits, public debt, investment protectionism). Prospects of FDI by mode of entry, industry, home region and host region are discussed in depth.

In Chapter 2 titled Regional Trends in FDI there are sub-sections on Regional Trends and Trend in Structurally Weak, Vulnerable and Small Economies. In the first section, the report focuses on the traditional regions (four developing-country regions, South-East Europe and the Commonwealth of Independent States (CIS), and developed countries). The subsequent section discusses FDI in special economies with common geographical or organisational features supported by facts and figures. Salient developments and issues with respect to regional FDI trends are highlighted.

TNCs from developing economies are making a rapid entry into Africa providing additional development opportunities and access to global markets. Latin American TNCs are looking beyond the region focusing on developed economies.

Chapter 3 on Recent Policy Developments has four sections. The first is on National Policy Developments. Second section looks at the International Investment Regime. Thirdly, Other Investment Related Initiatives are covered.

National and international policy developments point towards a rebalancing between the rights and obligations of the State and investors. A key policy challenge is striking a balance between further investment liberalisation and regulating the public interest. This remained a challenge in 2009-2010 because countries were striving to overcome financial, economic, energy, food and climate crises. These crises have had a profound impact on the global economy and human development goals.

Chapter 4 is titled Leveraging Foreign Investment For a Low-Carbon Economy. It focuses on five main areas which are Setting the Context, The Characteristics and Scope of Low-Carbon Foreign Investment, Drivers and Determinants of Low-Carbon Foreign Investment, Strategies for Low-Carbon Foreign Investment: Policy Option and Summing up: a Global Partnership to Further Low-Carbon Investment for Sustainable Development. TNCs are both major carbon emitters and low-carbon investors. They are therefore part of the problem and the solution to climate change. UNCTAD estimates that in 2009 low-carbon FDI flows into three key low-carbon business areas amounting to US$90 billion. The three key low-carbon business areas are renewable, recycling and low-carbon technology manufacturing. Government policies, market conditions, cost of production and business conditions are some of the factors influencing TNCs’ decision to invest abroad. This includes climate
change-specific factors, such as green branding strategies, regulation and pressure from consumers and investors.

The epilogue is on Investment for Development: Challenges Ahead. Here, a dichotomy in policy directions is presented. This dichotomy is in contrast to earlier trends. From 1950s-1970s (the first phase in the evolution of policy approaches towards foreign investment), the focus was on State-led growth. The 1980s to early 2000s focused on market-led growth. Today’s dichotomy is a result of rebalancing of public and private interests in pursuit of market-harnessing development, with government putting in place policies and mechanisms which enable and incentivise, as well as regulate market actors to better meet developments objectives.

The evolving TNC universe, along with the emerging policy setting, poses three sets of key challenges for investment for development. The first challenge is to strike the right policy balance. The second challenge is to enhance the critical interfaces between investment and development, such as those between foreign investment and poverty, and national development objectives. The final challenge is to ensure coherence between national and international investment policies, and between investment policies and other public policies.

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