Book Review


Economic crises have severely affected the trend and direction of Foreign Direct Investments (FDI) demanding an analysis to assess its trajectory as well as requiring a review of existing policy framework. In this context, World Investment Report 2012, developed by United Nation Conference on Trade and Development (UNCTAD), provides valuable insights on FDI trends in pre and post financial crisis era. It also projects the FDI trends in short, medium and long run.

This report is divided into four major chapters which have separate overviews with the objectives to explicate UNCTAD investment policy framework for Sustainable Development as well as analyse the FDI trends, prospects and present investment policies. Chapter 1 and 2 discuss the FDI trends globally and regionally while Chapter 3 and 4 enumerate the policy developments, particularly investment policy framework, for sustainable development.

Chapter 1 puts into perspective trends and prospects in global FDI flows along with discussion on global production and various FDI indices. The report begins by highlighting that Foreign Direct Investment (FDI) flows have increased to USD1.5 trillion in 2011 while equity investment has remained at lowest level. The rise in FDI flows is observed in services and primary sectors at the expense of manufacturing sector while developing and transition economies have been the major contributor in global FDI flows with 45% and 6% share of global FDI respectively. However in the case of FDI outflows, mainly driven by TNCs of developed nations, developing economies showed a negative trend. The report also forecasts a slower pace of FDI growth in 2012 with a comparatively sharp increase in 2013 and 2014, owing this projected trend to merger & acquisitions (M&A) and greenfield investments. In addition, the report compares the performance of private equity funds and Sovereign Wealth Funds (SWFs) concluding that the latter performed better. It is also revealed that SWFs contributed USD$125 billion in FDI and its asset base is approximately USD$5 trillion indicating potential for further investment. Foreign affiliates posted strong employment and production growth in 2011 mainly due to favourable economic conditions and continuous FDI flows during
the year. The last part of Chapter 1 discusses the FDI performance on the basis of FDI Attraction Index and FDI Contribution Index. Despite limitations, the rankings of the FDI Contribution Index underscore that FDI is not homogenous and that its economic contribution can differ markedly between countries, even those that enjoy similar levels of FDI. This phenomenon signifies the critical role of government policy in maximising the positive and minimising the negative effects of FDI.

Chapter 2 describes the regional FDI trends and the trends in structurally weak, vulnerable and small economies as well as small island developing states. Sub-Saharan African countries have been successful in luring FDI due to their abundant natural resources and growing consumer markets while growth in North Africa remained stagnant. Elucidating Asian trends, the report presents an encouraging picture of record levels of FDI inflows into East Asia, Southeast Asia and South Asia. Higher growth in South Asia is attributed to attractive FDI inflows into India. The report however, presents a bleak picture of West Asia which is still reeling from the effects of financial crisis. The report claims that most of the FDI growth in South America was linked to FDI growth in Latin America and Caribbean. Traditional investors - Europe and United States - are diversifying their investment patterns. The report contends that strong FDI flows into transition economies are due to the accession of the Russian Federation to the World Trade Organization. The chapter also discusses the FDI flows into developed countries and describes the search for energy and mineral resources have resulted in cross-border megadeals. However, UNCTADS also projected a negative outcome as a result of euro zone crisis and weak economic outlook. The chapter concludes with a discussion of increased FDI inflows in landlocked developing countries (LLDCs), and falling FDI inflows in Least Developing countries (LDCs), and Small Island Developing States (SIDS).

Chapter 3 is a commentary on recent investment policy developments. It is an interesting expose on respective countries’ liberalisation polices and promotion of foreign investment in various industries to spur growth in 2011. At the same time, stringent measures and new regulatory framework have been introduced particularly entry policies, for foreign investors. The report also describes challenges faced in the international investment policy making arena. Bilateral investment treaties (BITs) are steadily decreasing while regional policymaking is gaining popularity. There is also rising number of cases related to Investor-State dispute settlement (ISDS) and the report shows rising concerns with regards to this by examining evidence from Australian and Venezuela recent trade policy changes. To minimise problems, a number of countries are incorporating more stringent policy improvements. The report recommends individual reforms, their feasibility; potential effectiveness and implementation methods must be thoroughly studied. This chapter also
highlights TNC’s Corporate Social Responsibilities (CSR) codes. It is alleged that CSR codes of TNCs sometime create impediments especially for small and medium sized (SME) suppliers. The report recommends eliminating some of these problematic policies and harmonising the rest of them to create new opportunities for SME suppliers.

The last chapter of this report provides an investment policy framework for sustainable development. The report explains why a new generation of policies is important. Putting forward “Sustainable Development” as the broader goal of new generation investment policies, it is argued that these policies should strive to create global economic synergy, foster responsible investment behaviour and ensure effectiveness of implementation. The report also highlights potential challenges the country may face when devising such policies. UNCTAD also offers its investment policy framework for sustainable development encapsulating three major issues i) core principles for investment policy making ii) guidelines for national investment policies, and iii) options for design and use of international investment agreements (IIAs). This policy framework can act as point of reference for policy makers in devising their national investment policies; the report suggests that framework provides a common language for discussing and cooperation at national and international level. Tables related to FDI trends and various FDI projects are also captured in the report.

Overall, the report has managed to capture prevailing FDI trends, challenges and policy issues and provided in-depth analysis. Additionally, it has offered a practical policy framework for fostering FDI based on three major points: First, It has been argued that the global financial crisis has shifted the economic paradigm from developed to emerging markets. This argument is not only in line with extant scholastic studies but also many empirical work that indicate changing economic paradigm (Kotz, 2009; Frieden, 2009; Wim, 2009; Alfaro and Chen, 2010). Secondly, financial crises have increased the role of government in the economy across the globe. This has also been supported by number of empirical studies (Taylor, 2009; Stiglitz 2009). The government has also intervened extensively in major developed countries such as the United States. The third major point which the report highlights is the need for economic integration to combat challenges such as the financial meltdown. Frieden (2009) has argued the same quoting examples from previous crises; he asserts that to combat such crisis effectively, global economic cooperation is indispensable.

The eloquence of the report, in addition to its logical link of chapters, makes it an interesting read. However, when comparing results of projected and actual trends in investment, a large divergence can be observed. For example, In “Key Messages” of reports at Page XI, the report forecasts a positive growth
of FDI in 2012 levelling at USD$1.6 trillion, and moderate but steady growth in 2013 reaching USD$1.8 trillion. However when comparing the actual FDI results with the projected ones, it is evident that FDI decreased in 2012 levelling at USD1.35 trillion compared with USD1.5 trillion in 2011. This has also been highlighted in the World Investment Report (2013). Nevertheless, there are some limitations given that some of the projections are inconclusive especially with regards to FDI growth in the developed countries. The report though is very informative and successfully compares the pre and post crisis FDI trends while recommending sound investment policies for sustainable development.

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References


