

Book Review

World Investment Report 2011: Non-equity Modes of International Production and Development, United Nations Conference on Trade and Development, Geneva, 2011, 226 pp.

The World Investment Report 2011 examines the key trends of global and regional foreign investment including the investment policy regime trends as well as development in non-equity modes of international production. The report is divided into four chapters. Chapter one discusses the global investment trends, foreign direct investment (FDI) as external sources of finance to developing countries and the expansion of international production. The report argues that developing as well as transition economies, for the first time, attracted more than half of the global FDI flows and also accounted for the highest outward FDI, especially to other economies in the South. In this aspect, the East, South-East Asia and Latin America recorded the strongest FDI growth. Overall, FDI in 2010 recovered modestly after the significant decline in 2008 and 2009. In addition, the international production has expanded through the activities of the transnational corporations (TNCs) by generating nearly US\$16 trillion value added outputs accounting for about a quarter of global GDP. Sector wise, manufacturing still dominates while there is a decline in the overall FDI for primary and services sector. Industries which are highly subject to business cycle such as metal and electrical and electronics as well as wood and wood products recorded a decline in FDI levels. Despite capturing the main trends of FDI in various sectors, the report devotes less time explaining the underlying reasons for such trends. In some cases, anecdotal evidence is given to support the changes in the trends of FDI flows. Nevertheless, the report provides useful information in understanding the overall FDI landscape.

Interestingly, the state-owned TNCs have emerged as an important source of FDI. Although they only represent 1% of the TNCs worldwide, yet, in terms of outward investment they accounted for 11% of the global FDI in 2010. The rise of state-owned TNCs has raised concerns on the level playing field as well as other regulatory implications among the host countries for the international expansion of these companies. Nevertheless, evidence also shows that there is an uneven distribution of FDI into developing countries where significant regional differences exist especially in landlocked countries, least developed countries (LDCs) as well as Small Island Developing States (SIDS). There is a continuous fall in FDI into these countries. This may suggest that geography

is an important consideration for attracting FDIs. Unfortunately, the panel estimation for FDI, in this report, did not capture the effect of geography for the readers to verify the importance of geography. Moreover, uneven flows of FDI may have serious implications for these countries. Indeed, without such inflows and given the low saving rates, these countries may find it difficult to progress as well as to leverage from FDI especially in terms of acquiring new know-how that is crucial in improving the conditions of the countries. However, China's interest in Africa may change some of the directions of FDI flows to Africa. Given the market opportunities in Africa and the Chinese government's support in terms of finances, information, tax incentives to the Chinese firms, further FDI investment into Africa is likely (Mohan, 2013). In fact, FDI into the primary sector may play a more dominant role in coming years compared with in 2010. Nevertheless, these FDIs are resource seeking and how much developing countries can benefit depends on the absorptive capacity of these countries. In this aspect, human capital development is important to leverage the spillover effects of FDIs. Improving the local firm's capabilities will definitely allow these firms to better integrate with the global players. For this, the role of institutions matter in coordinating and assisting the industries. The report ends with an optimistic prospect for FDI but yet, at the same time, cautions the readers on some risks and uncertainties.

Chapter 2 discusses the regional investment trend particularly in Africa, Asia and Latin America. In the case of Africa, intraregional FDI has increased, however it is yet to realise the full potential of its investments. The report argues that due to proliferation within the regional grouping in Africa, the full potential of FDI may not have been realised. Most of the FDI flows come from developed countries through cross-border mergers and acquisitions (M&As) and greenfield projects and among the developing countries, China, India and the United Arab Emirates leads the chart being the top investors in Africa. Primary sector has been the main target (43%) following manufacturing (29%) especially in metal industry and services (28%) particularly in communications and real estate. As for South, East and South-East Asia, outward FDI flows have increased drastically while Latin America and the Caribbean witness an increase in resource seeking FDI especially from developing Asia. In contrast, FDI flows to Europe and Japan, less developed country, landlocked developing country (LLDCs) and SIDS recorded a decline. The report recommends key areas of improvement needed to enhance the productive capacities through FDI. Among them include initiating public-private partnership in infrastructure development, aid for the development of human capital, building on investment opportunities, encouraging a more dynamic local business environment and access to finance as well as reforming the institutions and regulations. Nevertheless, the action plan outlined in the report is rather generic in nature. Given the contextual

differences between the countries, policymakers in the respective countries should assess these recommendations taking into consideration their current position and further formulate strategies to overcome those constraints. Building new institutions, as suggested in the report, may have its own limitations as well. Indeed, operationalising some of the recommendations may be hard for LDCs given the resource constraints they face. But yet, the success of those recommendations depends on the institutional quality given that most of the initiatives involve the local government coordination. Institutional as well as regulatory reforms require political will and commitment.

An interesting part of the report is the evaluation of the recent policy environment in Chapter 3. It gives the readers a wider understanding and insights on the changes in the policy environment that might have potentially affected foreign investments. Measures improving the conditions of investment climate continue to increase with growing liberalisation and promotional events in developing and transition economies than in developed countries. In this aspect, Asia, Africa and Latin America are active in revising the investment policy with Asia being among the most active. This is predictable given that more liberalisation policy is needed to mitigate and to recover from low FDI inflows in 2009 due to global crisis. Perhaps this might explain why certain countries managed to attract more foreign investments. In contrast, restriction policy only increased slightly in 2010 compared with 2009 and are mainly in the financial sectors and resource-based industries where state intervention occurs due to nationalisation policies.

The analysis of the corporate social responsibility (CSR) standards is another interesting feature of the report. It argues that CSR standards has improved but gives little support and evidence, due to the exhaustive nature of every standard, except analysing it by organisations which have created these standards. Difficulties in capturing individual countries' own standards is one of the weaknesses of the report. However, it recognised the challenges and issues with the existing standards. There are still gaps, overlaps and inconsistency in the existing standards. Moreover, issues of inclusiveness in standards, voluntary vs national legislation, reporting and transparency, compliance and market impact and trade and investment barriers are discussed in the report. The chapter concludes with policy options to mitigate the challenges and to leverage the opportunities that relate to CSR standards. Again the policy options were concentrated on the importance of the institutional framework in facilitating the development, promotion and implementation of CSR standard.

What makes this report more interesting than the previous ones is the analysis of the non-equity modes (NEMs) of international production and development that is very important for developing countries; this is captured in Chapter 4, Through the lens of global value chains, the report goes beyond

examining FDI trends and analyses the NEMs of international production that forms a new form of governance systems of the TNCs activities. Although limited by methodological challenges of capturing the NEM activities, the report concludes that NEMs has been growing more rapidly than the industries in which they operate and has become particularly important for developing countries. It yields significant benefits especially in terms of employment, value added activities and exports. In addition, NEMs is able to support industrial capabilities in most of the countries especially in building productive capacity. In contrast, the risk associated with NEMs are that the employment is cyclical with lower value added if captured out of the total global value chain. There is also a danger that developing countries may be trapped within the TNCs global value chain making them too dependent on TNCs especially without the right policy of the government in developing countries. Nevertheless, NEMs offer good opportunity for the developing countries if and when the policy makers are able to maximise the benefits they offers. The report concluded that, to benefit from NEMs, policymakers are required to: first, address the dependency issues; second, build domestic capabilities including absorptive capacity for them to absorb the know-how and to qualify as the actor of global value chains; Third, establish a strong enabling legal and institutional framework; and lastly, address the negative consequences and risks associated with NEMs. The issues addressed here complement the recommendations in Chapter 2 on how to increase the FDI flows into LDCs. In this aspect, many of the recommendations are similar and repetitive in nature which lacks depth for useful policy direction. Indeed, the report also seems to overemphasise the role of institutions. Although broad prescription is given in most cases, less is explored it terms of other required necessary condition to attract FDIs.

The report gives an excellent understanding of the overall FDI climate and is recommended for policy makers and those who want to learn more about foreign investment climates.

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Reference

Mohan, G. (2013) “Beyond the Enclave: Towards a Critical Political Economy of China and Africa”, *Development and Change*, 44 (6): 1255–1272.