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Book Review

World Investment Prospects to 2010 – Boom or Backlash?

Edited by Laza Kekic and Karl P. Sauvant, *The Economist Intelligence Unit Limited, 2006. 130 pp. ISBN 0-86218-205-0*

> "The road at the top of this rise, seems to come to an end, and take off into the skies.
> So at the distant bend, it seems to go into a wood. The place of stand still,
> as long the trees have stood." (from "The Middleness of the Road" by Robert Frost)

Economic growth occurs when people take resources and rearrange them by innovating ideas and upgrading technologies to make something better happen. In the presence of multinational firms, foreign direct investment (FDI), defined as foreign investment made to acquire a long-term relationship and reflect a lasting interest in enterprises operating outside the economy of the investor, has been advocated as a key channel for technology diffusion and economic growth. Inflows of FDI were substantial in 2005, rising by 29% to reach US$916 billion. Notice the previous years' increasing rate was 27% high, yet inflows were way below US$1.4 trillion, at the peak in 2000. What will be the world investment prospects - boom or backlash in 2010? As we recall "The Middleness of the Road", having this condensed yet informative book handy might shed light on our future planning.

The book under review is a product of the Columbia Program on International Investment, a joint venture by the Columbia Law School and the Earth Institute at Columbia University. It is the latest edition of the biannual executive report from the Economist Intelligence Unit (EIU). Will the recent upward trend in global FDI flows continue in the next three to four years? What will be the impact of increasing geopolitical uncertainties (e.g., disruptions and costs to business associated with terrorist attacks, potential adverse impact on global business of the unsettled international political climate, and the threat to globalization from protectionist sentiment) on FDI? Which countries will offer the most attractive business environments? How open will China with her "going global" strategy since 2000 remain to foreign capital? What role will mergers and acquisitions play in future FDI growth? Whoever has interest in those questions might be targeted readers.

The book starts with an executive summary making use of data such as world FDI inflows, FDI inflows to developed countries as well as emerging markets (with Appendix 1 on p.91 defining what emerging markets are), 82 countries' FDI inflows, and countries' business ranking to take us from 2001 to 2010. The main conclusion is that, contrary to the experience of recent years (e.g., as in 2004, emerging markets accounted for the increase in FDI inflows in 2005) and widespread expectations about continuing strong FDI growth in emerging markets, the bulk of the increase in global FDI in 2006-2010 is expected to take place in the developed countries.

Keic's 53-page article "Global Foreign Direct Investment: Recent Trends and Forecasts to 2010" appears right after the executive summary. Keic did a splendid job as evidenced by his carefully interpreting data (with many starting from 1995) to report the recent trend of FDI inflows around the world, based on which the so-coined boom scenario and backlash scenario were presented to forecast for global FDI in 2006-2010. The empirical framework treats income levels, GDP growth, natural resource endowments, countries' distance, labor costs, and business environment variables as determinants of FDI flows. Detailed accounts on regional trends and problems in BRICs (Brazil, Russia, India, and China) were given.

Vice-Admiral Mansell once said that an optimist is one who makes opportunities of his difficulties. Following decades of liberalization and openness to FDI, there are signs of a possible incipient backlash. Sauvant, apparently as an optimist, in "A Backlash against Foreign Direct Investment?" argued that various reactions to FDI do not yet add up to a serious backlash or predict a marked slowdown in FDI flows. As Sauvant concluded, the new climate will emphasize that FDI contributes not only to corporate competitiveness, but also to the host country's development and welfare. Concurring to this line, I recommend a Kyklos paper by John K. Mullen and Martin Williams published in 2005 demonstrating a vital role for FDI in stimulating regions within well-integrated developed economies.

Apart from having four appendices, the volume ends with two short articles: Sachs' "The Importance of Investment Promotion in the Poorest Countries" and O'Brien's "Transatlantic Foreign Direct Investment: The Backbone of the Global Economy." The former has my idiosyncratic preferences. Sachs began with the great success of an investment promotion agency, Malaysia Industrial Development Agency, to inquire how to accomplish the goal. Even, if I may borrow Paul Romer's words, Taiwan (where this journal is housed) has been doing quite well in acquiring foreign ideas and participating fully in world markets, Sachs' paper may as well remind us of the fact that the economy in Taiwan has evolved recently to a large extent, so too have the targets, instruments and upcoming challenges. Potential foreign investors are no longer as focused as in the past on our basic infrastructure and tax holidays alike, they now are seriously concerned with the availability of highly skilled labor and whether major universities can guarantee the supply of future work force. O'Brien showed faith on the future of the EU-US investment links. Quite a number of manuscripts in empirical nature received by this journal fall within this "transatlanticisation" territory. I would urge those contributors to check out this book and stick to this kind of elegant and rigorous style in their writing. So, they will collectively devote much more time than the reviewer did, not to mention the time to be saved by dedicated referees trapped in repeated games with authors.

I would be negligent if I did not point out one minor disappointment, namely the lack of references of academic papers. The editors may deliberately compile (and shorten) articles such that no references came up, justifying the absence.

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