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Book review

World Investment Report 2006, FDI from Developing and Transition Economies: Implications for Development by United Nations Conference on Trade and Development (UNCTAD). United Nations Publications, New York (2006).

Abstract

This review essay concerns global FDI flows that are growing in size and importance in national development endeavors. The World Investment Report 2006 (WIR) contains a wealth of data and invaluable analysis concerning the effects of FDI on the world economy and development programs in the developed, developing, and transition economies. It is proposed that the future focus of the report should be expanded to include new ideas and research embedded in the new growth theory and recent interdisciplinary analysis, which meet the criteria of constantly changing world economic and cultural outlook and rising expectations. This approach also requires reforming the growth regime within the framework of globalization to achieve the goals of development and environmental renewal.

Keywords: FDI; Transition economies; Endogenous growth; Reforming growth regime

> Outward investment offers an additional avenue for developing countries to link up to global markets and (international) production systems. If managed successfully, these investments can help firms' access to markets, natural resources, foreign capital, technology or various intangible assets that are essential to their competitiveness but that may not be readily available in their home countries. Appropriate policies are needed to mitigate the risks and costs and seize the opportunities arising from outward investment. Kofi A. Annan, Secretary General, UN, 2006.

1. Introduction

Instruments of public and private foreign investment (FDI) and external trade are central to the process of long-term economic development, especially for developing and transition economies across the world. The rapid pace of globalization has intensified competition in the international markets pushing national economies, both transition as well as industrialized, toward a search for new development strategies. Difficulties during recent and current negotiations on international trade concerning the issues of promoting economic integration, investment, and trade liberalization provide clear evidence of nervousness, suspicion, and

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conflicts of interest among leaders of developing, transition, and industrialized economies. The untenable positions taken by the leadership of North American Free Trade Agreement (NAFTA), European Union (EU), Asian Pacific Economic Cooperation (APEC) at their meetings, and the failures of the Doha negotiations reveal the nature of these daunting tasks and the complexity of challenges ahead. These uncompromising positions in resolving differences prevent adherence to economic principles, and adversely affect both trade and investment relations. Despite these difficulties, however, there is a genuine desire to reach workable arrangements to facilitate flows of goods and services, investment, and the migration of workforce across national borders.

The current patterns of international trade, investment, and migration of workforce and economic development models face serious challenges, and arouse strong professional and policy debates. Questions are often raised whether they are anchored in realities of universal expectations of cooperation and compromise: or are they simply rhetoric. For example, in the areas of promotion of trade and investment, the important issues are: (a) economic integration, (b) free trade, (c) foreign direct investment, (d) development-infrastructure, (e) development-biased priority investment sectors, (f) human capital formation, and (g) environmental sustainability. In this regard it is interesting to find out how realistic is the current stance of negotiations and positions taken by leading countries. The evidence points to mixed results.

There is another important aspect of the lessons learned from developmental experiences during the past five decades. These lessons underscore that development should not be confused with economic growth. The phenomenon of economic development pertains to structural changes like infrastructure building, human capital formation, and environmental sustainability. Core development goals point to rapid progress in reducing poverty, enabling a working population to become globally productive, industrially trained and knowledgeable, and making substantial progress on environmental protection and renewal. Economic growth, on the other hand, is often measured by output increases without attaching sufficient significance to output quality. The composition of goods and services produced, and considerations of creating "market failure" are both positive and negative effects emanating from the process of growth. The current patterns of trade, investment, and development are pressing issues for the uplift of humanity and health of our environment. They need to be satisfactorily resolved in relation to 21st century needs and general expectations. This means the challenge of reforming the contemporary growth regime is critical at this time.

2. World investment report 2006 (WIR)

This review, of the World Investment Report 2006, conforms to the development-growth-specific issues. The WIR 2006 seeks to promote and strengthen the link between developing, transition economies, global markets, and international production systems within the framework of economic globalization and dynamics of the forces of Internet. The rapid pace of globalization and power of the internet and its expanding scope in reshaping the world economy have accelerated growth rates, thus contributing both positive and negative effects. Naming a few positive effects like the robust performances of the world GDP, the expansion in trade and investment activities and the negative effects such as the growing economic divide between industrialized and developing economies, an increase in income disparity and global warming are all embedded in the new patterns of growth and development that have appeared since the mid-90s.