International and national political economy, economics and development

World investment report 2003: FDI policies for development. National and international perspectives. Edited by Karl Sauvant. New York, NY: United Nations. 2003. 319pp. $49.00. ISBN 9211125804.

It's always tough for a sequel to live up to the expectations generated by the original. In the case of the annual *World investment report* (*WIR*), produced by Karl Sauvant's team at the United Nations Conference on Trade and Development (UNCTAD), the challenge is finding a fresh theme to enliven the deadly, but invaluable, statistics that these volumes contain. This year the WIR looks at the ballooning number of international investment agreements, most of which are bilateral, and asks how they can be made more development-friendly.

This is an important issue for developing countries. Most investment agreements are between the developing country's government seeking inward investment and the developed country's government whose firms are looking to invest overseas. Asymmetric power is an inherent feature of negotiations on such agreements. The *WIR* seeks to warn developing countries not to give away too much in promising liberalization, while tying incentives to performance requirements of the investing firms. However, it fails to develop an evidence base to motivate its advice. It does not demonstrate that the results of past negotiations have been detrimental to developing countries, nor does it provide examples where liberalization on the back of investment agreements was harmful. Most economists would expect the opposite.

The global overview of foreign direct investment (FDI) flows is less contentious. There is a striking story to tell as the world is suffering the worst two-year downturn in FDI flows since global statistics became available. Global inflows fell 21 per cent in 2002, after a 41 per cent fall in 2001. Over half of this reduction in FDI inflows was accounted for by the US and the UK. The reason it was so concentrated is probably attributable to the large share of FDI that represents mergers and acquisitions, rather than greenfield investment. The Anglo-Saxon economies are more fertile environments for acquisitions and the stock market bubble that burst in 2000 had created plenty of currency to finance them. When this disappeared, so did the appetite for FDI.

As in past years, the *WIR* contains a wealth of statistics on inward and outward flows and stocks of FDI. These alone make the volume a must on the shelves of those academics who follow globalization issues. There are also some gems tucked away in boxes throughout the report. An example is the comparison of China and India in their approaches towards attracting inward investment. The stock of FDI as a percentage of GDP in China is nearly five times larger than India's and in 2002, on a per capita basis, China attracted eight times as much FDI as India. While India has been liberalizing its policies towards FDI since 1991, the basic philosophy on foreign investment has been quite different in the two countries. China has long sought to attract export-oriented FDI, which has created significant employment and spurred investment in the transport infrastructure needed for efficient exporting. India has followed an import substitution strategy, which led it to encourage FDI only in high technology activities. This created few jobs and did not require the upgrading of infrastructure. It is perhaps significant that the recent Indian success is in attracting back-office IT functions and call centres whose output can be exported over the telephone lines.

The *WIR* is a weighty volume meant for dipping into, rather than for wading through. The selective reader, as well as the statistical researcher, will find their encounters with *WIR 2003* mostly enjoyable and occasionally enlightening.

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