# WORLD INVESTMENT PROSPECTS TO 2010: BOOM OR BACKLASH?, Kekic, L. and Sauvant, K.P. (ed.), 2006, Economist Intelligence Unit and Columbia Program on International Investment, New York, London and Hong Kong.

Special Edition Review*

This is a brief review of the special edition of the publication *World Investment Prospects to 2010: Boom or Backlash?,* which contains a description of recent global and regional trends in foreign direct investment and forecasts of future developments to 2010, and is publicly available from: http://www.cpii.columbia.edu/pubs. The publication comprises a total of 129 pages in four main chapters and Appendices. The author of the first chapter dealing with global trends in foreign direct investment and its prospects to 2010 is Laza Kekic. Chapter 2, written by Karl P. Sauvant, discusses some phenomena that may adversely affect foreign direct investment trends. The next chapter by Jeffrey D. Sachs is about the importance of foreign direct investment promotion in poorest countries, and in the last one, its author Dan O'Brien presents a detailed analysis of transatlantic FDI which is considered to be the backbone of the global economy. The Appendices present in detail the division of the world into regions and country groups and include the sources and definitions of data used. Moreover, they provide selected data on individual markets, including foreign direct investment data, and set out the business environment rankings methodology.

Taken together, this is a high-quality and informative publication which will definitively be of interest to economists and journalists dealing with foreign direct investment, but also tracking the developments in global economy. It is particularly recommendable to government institutions engaged in attracting foreign direct investment, for a better understanding of (expected) global trends and possible adjustment of their own strategies to such forecasts, with the purpose of increasing their efficiency. It is also recommended for students of economics.

For the most part, the publication relies on the interpretation of trends and projections of global developments in foreign direct investment for a few years to come. Although it is a difficult task to make accurate forecasts of any global phenomena, the mer-

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it of this publication lies not only in the results of such forecasts, but also in the discussions about the determinants of expected global capital flows. Thus, the reader may learn that foreign direct investment flows are determined not only by economic growth, competition intensity in particular industries and the quality of business environment in individual countries, but also by FDI-receiving countries' past experiences and the national economic policymakers' attitude towards globalization in general. The only criticism of the special edition of the publication concerns the presentation of the econometric model for estimating the amounts of future foreign direct investment. Neither the model nor the results thereof have been presented in a sufficiently detailed manner to enable an accurate conclusion on the reliability of the forecasts. Brief summaries of individual chapters are given below.

The first and longest chapter provides a description of recent trends and estimates of future global FDI movements. It does not include any normative discussions of foreign direct investment (or globalization in general), but only presents the results of future development forecasts. For estimation purposes, three scenarios have been worked out and this special edition presents the results of a basic scenario which, according to the author, relies on neither too optimistic nor too pessimistic assumptions. After its year-to-year decline in the period 2001- 2003, the amount of foreign direct investment rose in 2004 and 2005. However, the record high from 2000 (over USD 1400 billion) was not reached in these years, particularly if the amounts at constant prices are compared. The basic scenario predicts a gradual, but constant rise in global foreign direct investment by 2010, and the record high from 2000 (at current prices) could again be reached in 2010. The average annual growth rate of foreign direct investment would be 8%, which is less than the estimated growth rate of world trade, but more than the anticipated global economy growth rate. The United States would remain the largest FDI-receiving country, and international mergers and acquisitions (M&A) would continue to be the most frequent form of foreign direct investment.

The crucial factors contributing positively to such developments are the anticipated strong growth of the world economy until 2010, further business environment improvements in many countries, notable regional integration progress and sharpening competition in many sectors, exerting pressures on companies to expand through acquisitions or searching for locations with lower production costs, and, particularly, through an intensive quest for educated labour force available at competitive prices. On the other hand, major factors which, according to the authors, have potentially negative impact on FDI are security threats, primarily due to increasing global terrorism risks and the fear of globalization effects which resulted in a more restrictive attitude towards foreign investment in some countries. Also discussed are other potential risks, e.g. the worsening of global political relations, macroeconomic risks, the risk of a large-scale bird flu epidemic, etc.

Chapter 1 also provides estimates of foreign direct investment developments, separately for developed countries and emerging economies, and classified by region, with more detailed discussions for some major economic sectors. Accordingly, global foreign direct investment in developed countries and emerging markets are expected to increase by 66% and 48% respectively, by 2010. This in itself represents a change in trend relative to 2004 and 2005, when investment in emerging markets grew at a faster pace. The main forms of investment in developed countries are to be mergers and acquisitions, which will continue to be facilitated by low global market interest rates. Foreign investment in emerging markets is also expected to rise, yet at a somewhat slower rate compared with 2004 and 2005. Foreign capital will primarily flow into larger emerging markets, with stronger market potential. However, foreign investment, which are not focused on local markets but on production efficiency improvement are also expected to rise. Concerning the emerging economies, particularly strong positive movements are expected in IT industry, public utility sector, transportation and tourism related services, electrical products, machinery and metals, and mining and petroleum. An interesting trend is the expected growth of foreign direct investment by companies from less developed countries (emerging economies), primarily in other emerging economies, but also in developed countries. In this context, special attention is focused on large countries like Brazil, Russia, India and China, whose companies increasingly invest in other countries.

The Annex to Chapter 1 sets out an econometric model used for estimating future FDI developments. However, the Annex is not detailed enough (at least not the one in the special edition), to enable a discussion about the reliability of results. Nevertheless, a large number of relevant variables have been taken into account. It is also noteworthy that an alternative model has been applied for Eastern European countries, taking account of some circumstances specific to transition countries.

Chapter 2 deals with some phenomena which may account for a restrained attitude of economic policymakers towards foreign direct investment, both in emerging markets and developed countries. Due to its expected favourable impact on the economies of FDI-receiving countries, competition between countries in attracting foreign direct investment became more rigorous in recent years. Countries have often changed their legislations, becoming more open to foreign investors. Moreover, they have often provided generous investment incentives to foreign investors. The author offers a number of possible reasons for a change in attitude towards foreign investors. For example, foreign companies acquiring major domestic enterprises (sometimes in privatization process) considered to be of strategic importance (for national security, cultural identity, economic growth, etc.), are increasingly faced with resistance in the receiving country. Recent examples of such resistance can be found in both developed FDI-receiving countries and in emerging economies. However, a negative attitude towards foreign investment and resistance to the acquisition of national companies are particularly strong in developed countries where local enterprises are taken over by multinational companies from emerging economies. This type of economic protectionism is most frequently accounted for by multinational companies' own global interests which do not necessarily comply with national economic interests. Moreover, in the countries with abundant natural resources or in the cases of foreign investment in infrastructure, the question is raised of how beneficial the arrangements already concluded with multinational companies are for the receiving country concerned. In addition to this, countries with predominantly outflowing capital have always been faced with concerns about relocating a certain number of jobs to other countries. However, these concerns have recently broadened to include higher-paid jobs, particularly in the services sector, as there is an upswing in foreign investment in internationally tradable services sectors.

A trend that can be observed in receiving countries has been that they are not so much focused on the amount of attracted foreign investment any more, but on its quality and impact on local economy (which, on the other hand, also depends on the terms agreed with foreign investors). These developments might have an adverse partial effect on global foreign investment flows. It is pointed out that the attitude of national economic policies towards foreign capital has already been changing in the past, and that this would continue in the future. However, it is concluded that a milder, but still positive trend towards the liberalization of foreign direct investment can be expected in the near future. It is further noted that it would be ironic (*and also hypocritical, I would say)* of developed countries, which were the leaders of foreign investment liberalization over the last two decades, to promote a different attitude towards foreign capital in the future.

Given the potentially beneficial effects of foreign investment on receiving countries and its potential contribution to economic development, the promotion of and competition for attracting foreign investment is of particular importance for least developed countries. This issue is dealt with in the third chapter of the publication. Some economic sectors are listed in which these countries could be competitive in global terms, e.g. the raw materials sector, labour-intensive processing industries, processing industries using locally available/produced semi-finished products and raw materials, tourism and low value-added service sector.

On the other hand, the strongest foreign direct investment flows have been recorded, and are expected in the future, among developed countries, primarily the EU and USA. Therefore, these *transatlantic FDI flows* are the subject of a special chapter. Among the factors expected to contribute to a further increase in transatlantic foreign investment are, e.g. the anticipated fast economic growth, continuing deregulation and business environment improvement, relocation of certain business functions of companies (primarily research and development), etc. It is pointed out, however, that due to increasing attractiveness of some locations outside of the transatlantic area, there is also a possibility of redirecting some investment to third countries.

The results of the publication suggest that the amount of worldwide foreign direct investment will go up in the next few years. Competition among countries for attracting FDI will also continue, with the emphasis being placed on the quality of investment to be attracted (within the context of domestic economic development) rather than on their amount. The investment quality largely depends on the conditions on which foreign investment is brought into a country, and these conditions are often and to a large extent defined by the receiving country itself.

In the past, economic policymakers in Croatia, particularly those responsible for attracting foreign investment, have often failed to take this fact into full account. Therefore, besides providing an insight into the forecast of foreign investment developments, this publication also offers a number of useful conclusions in this respect. It is important to note the experiences of countries which are dissatisfied with the arrangements concluded with foreign companies in the past, and would now like to revise them. This particularly relates to investment in natural resources or infrastructure. Since it is difficult, if not impossible, in a law-respecting country to revise an agreement unilaterally, it is clear that economic policymakers must be careful and selective in attracting foreign investment, even at the cost of lower amounts of attracted FDI (or, in the case of privatization, at the cost of lower budget receipts).

With the exception of infrastructure facilities and enterprises in the natural resources sectors, it seems necessary that all sectors, in which certain companies have significant market power, should be subject to detailed regulations in order to ensure that market results are sufficiently harmonized with public interests. It is the companies with dominant market positions that can have strong (adverse) effects on business conditions for enterprises in other related sectors, but also on the quality i.e. price of end products and services for consumers. This, of course, applies to both domestic and foreign companies. However, in the case of foreign companies, there is a risk of creating a general negative perception of foreign investment.

It follows that, with an appropriate approach to attracting foreign investment, one can expect their stronger positive impact on domestic economic development, which, in turn, prevents the negative perception of foreign investment in general and helps attracting new foreign investors.

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