Foreword

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The world economy is undergoing a profound transformation, driven by globalization, the spread of the market economy to virtually all countries and the liberalization of international economic transactions. Part of this transformation involves the rise of emerging markets, led by developing Asia. The growth of exports from that region, its attractiveness to foreign direct investment (FDI) and its economic growth in general have drawn the attention of analysts and policy makers worldwide, as prime indicators of this transformation.

In the shadow of these developments, another change is taking place: emerging markets increasingly not only attract FDI, but are also becoming the source of such investment. Largely unnoticed, the proportions of this investment have become quite significant: as UNCTAD's *World Investment Report 2006* documents, FDI outflows from emerging markets in 2005 were some \$130 billion (almost three times *world* FDI flows some 25 years ago), and the stock of this investment had reached \$1.4 trillion. This means that emerging market firms have not only become internationally competitive in terms of trade, but a good many of them now also have the tangible and intangible assets needed to be successful through FDI – and more firms will join the already established global or regional players in the future.

This is a good thing: outward FDI from emerging markets (as is shown in the contributions to this volume) strengthens the competitiveness of the firms involved; it helps the economic performance of their home countries; it opens new sources of long-term capital flows (and the benefits associated with them) for other countries; and, more broadly, it becomes another avenue for the integration of emerging markets into the globalizing world economy.

Despite the importance of this phenomenon, it has not received the analytical and policy attention it deserves. The policy challenges, in particular, stand out. Emerging markets themselves need to come to grips with their new role as home countries, including by balancing their interests as host and home countries. Host developed countries, for their part, must recognize that emerging market transnational corporations are here to stay and

need to be accepted as increasingly important players in their markets. Furthermore, there is the challenge of integrating the new players smoothly into the international economic system within a framework of rules that gives due attention to the interests of all involved.

These are formidable challenges, especially since they need to be seen as part of a broader transformation of the world economy – what I would like to term the second generation of globalization. They call for more research and policy analysis, and this volume is an important step in that direction.

Geneva, August 2007

NOTE

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