

WORLD TRADE INSTITUTE

**FOREIGN DIRECT
INVESTMENT AND
DEVELOPMENT:
NEW PERSPECTIVES, NOVEL
CHALLENGES**

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FOREIGN DIRECT INVESTMENT

(FDI)

**COMES IN
FOUR FORMS**

FDI in Extractive Industries

FDI in Infrastructure

FDI in Manufacturing and
Assembly

FDI in Services

Each Brings Such
Distinctive Benefits,

Threatens
Such Distinctive Harms,

Poses
Such Distinctive Policy Challenges

That Each
Must Be Analyzed On Its Own.

Using Data Streams that
Combine all Four FDI Flows
To try to find One Relationship
between FDI and Host Welfare,
or TFP, or Growth Rate

Makes No Logical Sense.

It is like asking the Common
Relationship Between the

Impact of FDI in the Oil Industry of Nigeria

Where the Outcome depends upon
Policies related to
the Resource Curse
and Dutch Disease

The impact of FDI in the
Electrical Power Industry
of Indonesia

where the Outcome depends upon
Policies related to the
Mismatch between
Foreign Currency Obligations
and Revenues in Local Currency.

The impact of FDI in the
Electronics Industry
of Malaysia

where the Outcome depends upon
Policies related to
Backward Linkages
and Vertical Spillovers

The impact of FDI by
Wal-Mart
in the Retail Service
Sector of Mexico

Where the Outcome depends
upon Policies

Related to the Crowd-in/Crowd-out
Investment debate

This is not just a
Methodological point.
Mixing FDI flows data leads to
Inaccurate Substantive
Conclusions, and
Misguided Policy Implications.

I.

FDI in Extractive Sector
and the Challenge of Creating a
Level Anti-Corruption Playing
Field
for Investors of All Nationalities

II.

Using FDI in Manufacturing
to Upgrade and Diversify the
Production
and Export Base of Host Country

III.

New Agenda for Corporate Social
Responsibility
and Sustainable Development
pro-poor NGO community

I.

FDI in Extractive Sector
and the Challenge of Creating a
Level Anti-Corruption
Playing Field
for Investors of All Nationalities

Outcome from FDI in Extractive Sector

depends upon case-specific pressures for

Transparency and Accountability
in which WBG, NGOs, and
Investors themselves
have Crucial Roles to Play.

Dodd-Frank and EU Transparency
Directive Requirement
for extractive industry companies to
Publish what Payments They make to
Governments
will have great positive impact in
advancing
Transparency and Accountability.

But a Gap remains between
OECD investors
and
Chinese, Russian, and Indian companies.

Of the sixteen largest Chinese mining companies
with overseas operations,

eleven do not have listings outside of China.

Two of the three largest Indian oil companies
are not listed in the United States.

Next step is for developed and
developing country governments,
World Bank Group, and NGOs
to make Host Government Publication
of
Investor-By-Investor Payments
mandatory
for EITI compliance.

Mining Investors Get This

(it is in their interest),

Oil Companies do not.

II.

Using FDI in Manufacturing
to Upgrade and
Diversify Production
and Export Base
of Host Country

Sweatshop issues

remain **Highly** Important.

Low-skill Intensive Operations

like production

of Garments and Footwear

do **NOT** constitute

the predominant thrust of

FDI

in Manufacturing and Assembly today.

The flow of Manufacturing FDI to
Medium-Skilled activities

such as

Industrial Machinery, Electronics,
Auto Parts, and Medical Devices is

FOURTEEN TIMES LARGER

each year than the flow to
low-skilled, labor-intensive operations.

**WHAT
YOU
EXPORT
MATTERS!**

Countries that
Diversify and Upgrade their export base
rather than merely exporting more of the
Same Kinds of Goods and Services
enjoy
more rapid Growth Rates,
more advanced levels of Productivity,
greater Domestic Welfare,
and
higher Standards of Living
than countries that do not.

FDI in more sophisticated
manufacturing

Offers

greater opportunities for

Backward Linkages

and indigenous

Supply Chains.

Using FDI to Upgrade and
Diversify Exports
does not come Easily or
Naturally.

Important Market Failures
and Impediments.

This is the New Frontier for FDI in Manufacturing.

How to put together
Reform Packages that include
Investment Promotion,
Infrastructure Development,
Skilled Worker Training.

The Role of State Intervention
“Reform, reform!” is not enough.
Light-handed “industrial policy”
is needed.

Not imposing technology-sharing
requirements

Or domestic content requirement
on manufacturing MNCs

New Focus on
Labor Market
Flexibility?

Combating sweatshop abuses
remains important
Among low skill-intensive
investors and subcontractor.

Survey data from auto equipment, electronics, chemicals, and industrial equipment shows foreign investors pay their employees *two to three times as much for basic production jobs,* and *ten times as much for technical and supervisor positions,* in comparison to lower-skilled MNC activities.

In Moroccan labor law

no distinction, for example,
between
laying workers off and firing them

a large severance payment is required
(the average severance cost
is equal to 85 weeks of salary in Morocco
versus 53 weeks on average elsewhere in the region),

the size of which can be easily challenged in court
with the company having to continue to pay the worker
while the claim is adjudicated.

III.

New Agenda
for CSR,

Sustainable-Development
pro-poor NGOs

CSR agenda is vast and varied, but
Predominant Thrust is pressure to
“Give Back” more to
Communities -- Form Public-
Private partnerships
to surround FDI plants with
Schools and Clinics.

Corporate Social Responsibility and
Sustainable Development
advocates will discover that they can
Contribute More
to Broad-based Host Welfare if they
reshape
their agenda around the Main-Line
Core activities of multinational
corporations

Refashion Codes and Indexes:
Does your Extractive Company
support Investor-By-Investor
Publication of Revenue Payments?

Does your Manufacturing
Company
have a
designated Talent-Scout
to spot Local Suppliers,

or a Vender-Development Program
to promote Backward Linkages?

THE TWELVE PRINCIPAL CHANNELS FOR FOREIGN DIRECT INVESTMENT'S IMPACT ON “DEVELOPMENT”

CHANNEL 1.

FDI in extractive sector: Resource rents to fund host country economic and social expenditures.

Environmental and governance externalities (positive or negative).

CHANNEL 2.

FDI in infrastructure: Cheaper, more reliable, expanded access to electricity, water, sewage, telecom, transport.

Environmental and governance externalities (positive or negative).

CHANNEL 3.

FDI in manufacturing and assembly : More or less efficient use of host country resources and greater or lesser real income generated in the host economy (as measured by economic or social cost/benefit analysis of individual projects).

CHANNEL 4.

FDI in manufacturing and assembly: horizontal spillovers and externalities.

CHANNEL 5.

FDI in manufacturing and assembly: vertical spillovers and externalities.

CHANNEL 6.

FDI in manufacturing and assembly:
horizontal and vertical export externalities.

CHANNEL 7.

FDI in manufacturing and assembly:
compensation premia and training premia.

CHANNEL 8.

FDI in manufacturing and assembly: labor
market externalities. Labor institution
externalities.

CHANNEL 9.

FDI in manufacturing and assembly:
Diversification of the production and
export base. Expansion along the extensive
frontier. Entrepreneurship externalities,
“ideas” (Paul Romer), “self-discovery”
(Ricardo Hausmann, Dani Rodrik),
contribution to “what you export matters”.

CHANNEL 10.

FDI in manufacturing and assembly:
Upgrading of the production and export base from low-skill intensive to higher-skill intensive activities. Expansion along the extensive frontier. Entrepreneurship externalities, “ideas” (Paul Romer), “self-discovery” (Ricardo Hausmann, Dani Rodrik), contribution to “what you export matters”.

CHANNEL 11.

FDI in services: improve the productivity of specific service sectors. Horizontal and vertical spillovers and externalities.

CHANNEL 12.

FDI and higher or lower host economic growth rates.