FDI AND DEVELOPMENT: TOWARDS ACHIEVING THE SDGs
OUTLINE OF PRESENTATION

- Developments in FDI: rise of the GVC
- FDI and sustainable development in the host country
- FDI and SDGs
- Discussion: how you can make a difference
- Concluding remarks
DEVELOPMENTS IN FDI: RISE OF GVCs
GLOBALIZED TNC CHARACTERISTICS

- World-wide sourcing/supply chain management
- Customized end-products
- Global market presence essential
- Cost minimization and intensive use of ICT/automation
- Intangible assets (brands, skills, innovation) more important than tangible assets (factories, warehouses, dealer networks)
- Increasing importance of SMEs as TNCs
- Increasing FDI from emerging economies, mostly market-oriented
- Role of state-owned enterprises and sovereign wealth funds as foreign investors
TRADE AND INVESTMENT LINKAGES

FDI has evolved from being a

- **substitute** for trade (replacing exports, jumping trade barriers to serve foreign markets)

  to being

  - **complementary** to trade (FDI as part of global value chains)
TRADE AND INVESTMENT LINKAGES AT VARIOUS LEVELS

- **Multilateral level**: WTO and multilateral trade agreements: TRIMS, GATS, TRIPS

- **Regional level**: regional integration agreements including preferential/free (bilateral and regional) trade agreements containing investment provisions

- **National level**: need for trade and investment policy coherence: from trade and industry policies to trade and investment policies
FDI AND GLOBAL SUPPLY CHAINS: EFFICIENCY-ORIENTED FDI

- FDI has accelerated the development of global supply chains as firms (re)located part of their business activities in other countries that can undertake these activities more efficiently.

- Globalization and regionalization and economic (trade and investment) liberalization and deregulation have led to increasing market integration and reduced the importance of market size as determinant of investment location, enabling small countries to attract FDI and participate in global supply chains.

- Global supply chains enable local SMEs to act as suppliers of labour-intensive parts and components or to provide other basic services, largely on a subcontracting basis.
Including local SMEs into global supply chains results in regional supply chains. Recently, several trends can be observed in the development of global supply chains which are particularly relevant to SMEs:

- The multilateral trading system has established a global system of trade rules which enhance predictability and transparency in international trade transactions.
- Enterprises from Asia-Pacific emerging economies have expanded their access to the markets of regional trading partners due to various regional trade agreements and other regional integration arrangements, often incorporating commitments on investment.
- Many SME suppliers in Asia-Pacific developing countries have been moving to higher value-added functions within global supply chains.
- Some suppliers in emerging economies such as China, Malaysia and Thailand have started to transfer traditional labour-intensive operations to less-developed neighbouring countries.
- SMEs are acquiring more technology and knowledge through global supply chains from larger or more advanced partners.
FDI AND SUSTAINABLE DEVELOPMENT IN THE HOST COUNTRY
POTENTIAL BENEFITS OF FDI TO THE HOST COUNTRY

- **Resource transfer effects**
  - Capital inflows (to bridge savings-investment gap and balance of payment deficits)
    - TNC invests capital in foreign markets
  - Technology
    - Research supports that TNCs do transfer technology when they invest in a foreign country only under certain conditions.
  - Knowledge and Management skills
    - When TNCs invest and manage in a foreign country, they often transfer both technical knowledge and management/process skills to employees in the company, who may later go on to set up their own companies.

- **Employment effects**
  - TNCs, by investing in foreign countries, can create additional employment opportunities for the local workforce. But: Acquisition vs. Greenfield Investment, different impacts. The new competition could also push some other companies out of the market, making employment effects uncertain.

- **Balance of payment effects**
  - FDI can have beneficial and negative effects on a country’s balance of payment. Also depends on the net trade effect of FDI.

- **Effect on competition**
  - FDI can increase competition which is necessary for the efficient functioning of markets within a proper regulatory environment. But: Important to regulate for monopolies and oligopolies.

- **Indirect benefits**
  - Encourage the development of domestic investment/indirect exports through supply chains
  - Encourage domestic reforms
POTENTIAL BENEFITS OF FDI TO HOST COUNTRY’S BALANCE OF PAYMENT

- **Initial capital inflow**
  - When a company invests in a foreign country, it brings capital into that country

- **Substitute for Imports**
  - To the extent that the goods/services produced by the FDI substitute for imported goods/services, there is a positive effect on BoP

- **Inflow of payments from export of goods and services**
  - To the extent that the goods/services produced by the FDI are exported to another country, there is a positive effect on the host country’s BoP

- **But**: Investment may result in 100% repatriated earnings offsetting the original capital inflow (e.g. in mining)
TT from FDI is not automatic and takes place only under certain conditions:

- TNCs will transfer technology to local companies if it makes commercial sense.
- TT to developing countries through FDI tends to be through internalization (i.e. from parent to subsidiary) and may not benefit the host country directly apart from learning effects on the labour force.
- Horizontal TT from TNC to subsidiary is highest if subsidiary is part of joint venture (majority owned by TNC).
- Vertical TT to supplier can take place where the supplier needs to provide a product in accordance with high standards.
- Spillovers to other domestic companies (indirect TT) highest in case of vertical TT (and also benefits the TNC as it lowers the costs of intermediate goods).
- For higher levels of TT, IPR protection at international standards (e.g. TRIPS) becomes more important though the level of protection may be determined by existing IIAs of the host country.
ISSUES IN CAPTURING BENEFITS FROM FDI: TECHNOLOGY TRANSFER, CONT.

- The country also needs capability of technology adoption, adaptation, absorption and diffusion
- TT from FDI depends on existence of industry-specific competitive advantages (including levels of local skills)
- Healthy level of competition in host country and innovation-minded mentality helps TT
- High level of TT more likely if TNC establishes local R&D centre
- Evidence shows that FDI contributes to productivity growth in the industry
- Performance requirements on TT are often a disincentive for FDI
- FDI may not be the most efficient mode for TT
POTENTIAL COSTS OF FDI TO HOST COUNTRIES

- **Adverse effects on competition**
  - TNCs may have “too much” power and crowd out local enterprises

- **Adverse effects on balance of payments**
  - After initial inflow of capital, subsequent outflow of capital from repatriated earnings
  - FDI may import inputs from abroad which exceed the value of exports (if any)

- **National sovereignty and autonomy**
  - Key decisions that affect the host country’s economy may be made by a foreign parent that has no real commitment to the host country
  - Commitments under IIAs and investment contracts limit policy space
  - Meddling of TNCs in local politics/corruption

- **National inclusive and sustainable development**
  - Impact on local communities: displacement, exploitation
  - Impact on environment: pollution, soil degradation

**Actual costs:**

- Costs associated with promotion, monitoring and evaluation
Generous tax incentives can be a drain on the budget

Employment generation may be limited as local skills are not adequate

Technology transfer less likely in countries lacking adequate IPR protection

Skills development is not automatic

Development of value chains and access to markets depends on the type of FDI (sector, production structures, etc)
SOME POSITIVE IMPACTS OF FDI FROM DEVELOPED COUNTRIES IN DEVELOPING COUNTRIES

- Many economic development success stories in East Asia are FDI-led (including “Asian miracle”)
- TNCs from developed countries generally pay higher wages than local firms
- TNCs from developed countries generally have a better environmental track record (better technology, brand name protection)
- TNCs from developed countries are often liable at home for overseas bribery and soliciting corruption and can be prosecuted
- TNCs from developed countries generally contribute to higher productivity
- TNCs from emerging economies make easier linkages with domestic companies in the host country (familiarity with business environment in developing countries)
- TNC contribution to overall working conditions, technology transfer and skills upgrading is mixed
CASE STUDY OF POSITIVE FDI IMPACT: UNILEVER IN VIET NAM

- Wealth creation and contribution to employment and skills: In 2007, the company’s spending on training and recruitment was equivalent to 12.5 percent of the salary budget
- Capital formation and contribution to state budget
- Exports have had positive impact on balance of payments
- Constructive partnerships and building national supply chains with local enterprises (SMEs)
- By 2007, 60 percent of its raw materials and 100 percent of its packaging materials are sourced locally
- Overall, the company generates up to 8,000 indirect jobs throughout its extended value chain.
- Technology transfer has taken place
- Good corporate conduct has raised awareness and improving performance standards of the local partner
- High standards of corporate behaviour towards employees, including non-discrimination, diversity, gender balance and localization
- Introducing higher standards for consumers: making hygiene and personal care practices commonplace, as well as helping to improve nutrition and cooking.
- Addressing the needs of the poor
- No abuse of market power
- CSR: (i) health and hygiene; (ii) education and children; development; and (iii) women empowerment. Many community-development projects
NEGATIVE AND POSITIVE IMPACTS ON SUPPLY CHAIN (SUPPLIERS)

- Bangladesh and Cambodia garment industry (Rana Plaza disaster)
- Foxconn, supplier of i-Pads to Apple

- But.....FDI has contributed to high impact on employment growth and growth of domestic business
NET IMPACT OF FDI ON POVERTY REDUCTION: THROUGH (LABOUR-INTENSIVE) ECONOMIC/INCOME GROWTH

FDI impact on poverty only indirect, and depends on many factors, e.g.:
- Supporting host country policies other than on FDI
- Tax income from FDI spent on poverty reduction
- Quality of institutions
- Quality of domestic enterprises
- Labour market flexibility
- The quality of the investment project
- The regulatory framework (existence and implementation of necessary laws and regulations, including competition policy)

Qualification: FDI inflows do not reduce income inequalities. It may actually increase inequalities

Reality check: Recently much economic growth is jobless growth
FDI AND SUSTAINABLE DEVELOPMENT GOALS
As clarified in the Rio+20 outcome ("the Future we Want") sustainable development covers three dimensions:

- Economic
- Social
- Environmental
MEASURING IMPACT:
INDICATORS OF SUSTAINABLE FDI

- **Economic:**
  - contribution of FDI to GDP growth, net exports, employment, (gross) capital formation, net capital inflows, government revenue, extent of forging linkages with domestic SMEs, technology transfer and absorption, competition, infrastructure development, etc.

- **Social:**
  - contribution of FDI to skills development, community development, women and disadvantaged groups employment, health benefits and pension plans, minimum wage and level of labour conditions (e.g. conformity with ILO labour standards), extent of CSR programmes and their results, number of families lifted out of poverty, accessibility and affordability of goods and services produced

- **Environmental:**
  - level of environmental pollution (air, water, ground), level of GHG emissions, level of energy efficiency and water consumption, level of discharge of waste and recycling, application and transfer of environmentally sound technologies, etc.
SUSTAINABLE DEVELOPMENT GOALS

- An intergovernmental, open working group (OWG) on SDGs put in place by Rio+20 to develop SDGs
- Draft SDGs finalized by the OWG in July 2014
- Submitted to 69th session of the General Assembly
- Adoption expected in September 2015, during a Summit meeting on (and integrated into) the post-2015 development agenda

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<th>GOAL 1</th>
<th>End poverty in all its forms everywhere</th>
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<tr>
<td>GOAL 2</td>
<td>End hunger, achieve food security and improved nutrition and promote sustainable agriculture</td>
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<td>GOAL 3</td>
<td>Ensure healthy lives and promote well-being for all at all ages</td>
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<td>GOAL 4</td>
<td>Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all</td>
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<td>GOAL 5</td>
<td>Achieve gender equality and empower all women and girls</td>
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<td>GOAL 6</td>
<td>Ensure availability and sustainable management of water and sanitation for all</td>
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<td>GOAL 7</td>
<td>Ensure access to affordable, reliable, sustainable and modern energy for all</td>
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<td>GOAL 8</td>
<td>Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all</td>
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<td>GOAL 9</td>
<td>Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation</td>
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<td>GOAL 10</td>
<td>Reduce inequality within and among countries</td>
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<td>GOAL 11</td>
<td>Make cities and human settlements inclusive, safe, resilient and sustainable</td>
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<td>GOAL 12</td>
<td>Ensure sustainable consumption and production patterns</td>
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<td>GOAL 13</td>
<td>Take urgent action to combat climate change and its impacts*</td>
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<td>GOAL 14</td>
<td>Conserve and sustainably use the oceans, seas and marine resources for sustainable development</td>
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<td>GOAL 15</td>
<td>Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss</td>
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<td>GOAL 16</td>
<td>Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels</td>
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<td>GOAL 17</td>
<td>Strengthen the means of implementation and revitalize the global partnership for sustainable development</td>
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SAMPLE INDICATORS: FOOD & AGRICULTURE

2.a Increase investment, including through enhanced international cooperation, in rural infrastructure, agricultural research and extension services, technology development and plant and livestock gene banks in order to enhance agricultural productive capacity in developing countries, in particular least developed countries.

2.b Correct and prevent trade restrictions and distortions in world agricultural markets, including through the parallel elimination of all forms of agricultural export subsidies and all export measures with equivalent effect, in accordance with the mandate of the Doha Development Round.

2.c Adopt measures to ensure the proper functioning of food commodity markets and their derivatives and facilitate timely access to market information, including on food reserves, in order to help limit extreme food price volatility.
SAMPLE INDICATORS: WATER

6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and increasing recycling and safe reuse by [x] per cent globally.

6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity.

6.5 By 2030, implement integrated water resources management at all levels, including through transboundary cooperation as appropriate.

6.6 By 2020, protect and restore water-related ecosystems, including mountains, forests, wetlands, rivers, aquifers and lakes.
SAMPLE INDICATORS: ENERGY

7.1 By 2030, ensure universal access to affordable, reliable and modern energy services

7.2 By 2030, increase substantially the share of renewable energy in the global energy mix

7.3 By 2030, double the global rate of improvement in energy efficiency

7.a By 2030, enhance international cooperation to facilitate access to clean energy research and technology, including renewable energy, energy efficiency and advanced and cleaner fossil-fuel technology, and promote investment in energy infrastructure and clean energy technology

7.b By 2030, expand infrastructure and upgrade technology for supplying modern and sustainable energy services for all in developing countries, in particular least developed countries and small island developing States
SAMPLE INDICATORS: SUSTAINABLE CONSUMPTION AND PRODUCTION

12.2 By 2030, achieve the sustainable management and efficient use of natural resources

12.3 By 2030, halve per capita global food waste at the retail and consumer levels and reduce food losses along production and supply chains, including post-harvest losses

12.4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment

12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse

12.6 Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle

12.7 Promote public procurement practices that are sustainable, in accordance with national policies and priorities
INVESTING IN THE SDGs

UNCTAD World Investment Report 2014:
- UNCTAD estimates that investment needs for SDGs amount to $5-7 trillion per year
- At current levels of investment, developing countries face an annual investment gap of $2.5 trillion
- The role of the public sector for investing in SDGs is pivotal
- Private sector contributions are indispensable, and can take two forms:
  - Good governance in business practices
  - Investment in sustainable development
- UNCTAD estimates LDCs need to double the growth rate of private investment, to ensure funds to complement public investment and ODA
INVESTING IN THE SDGs, CONT.

- Based on this UNCTAD proposes:
  - Establishing SDG investment agencies, to develop bankable projects
  - SDG oriented investment incentives
  - Regional SDG investment compacts (esp. cross-border infrastructure development, and green zones)
  - Home and host country IPA partnerships, to promote SDG investment. A multi-agency TA consortium to help assist LDCs
  - Launch of innovative financing mechanisms, e.g. dedicated SDG funds and seed financing
DISCUSSION: HOW YOU CAN MAKE A DIFFERENCE
QUESTION:

What can you, as a policy maker, do to ensure FDI attraction rules, regulations and programmes/incentives positively contribute to increased economic advancement, social equity and environmental sustainability?
FDI AND DEVELOPMENT: CONCLUDING REMARKS
FDI FOR DEVELOPMENT: 
SOME CONCLUDING REMARKS

- FDI is not a panacea for development
- Dynamic growth and low production costs attracts FDI
- Foreign investors look at the whole picture, not just level of liberalization or incentives
  - Domestic market oriented FDI – size of market, expected future demand and ability to pay for its products.
  - Resource seeking FDI - amount of the resource, expected extraction price, and governance issues.
  - All – possibility to produce the products and services at a competitive price, and fulfill customers demand for quality and timeliness of delivery.
- Policy space restricted by international obligations (WTO/RTAs/IIAs): performance requirements are not always possible but may be counterproductive anyway
- To assess exact development impact of FDI is very difficult: impact is generally positive in terms of economic growth but depends on sector. Social/environmental impact is mixed. Getting the most out of FDI requires good laws and good governance.
- Even if FDI results in net benefits who reaps them?
- Supporting policies in many areas essential to make FDI work for development
- In times of economic crisis, short-term private capital will flow out but FDI is more stable
CONCLUDING REMARKS, cont.

- Keep global picture in mind and take long-term view
- Careful evaluation of costs vs. development benefits is warranted, in particular as regards incentives
  - Don’t go into “incentives competition”, as incentives reduces government income without necessarily changing the investment decision of companies
- Coordination between FDI policies and other policy areas (trade, industrial/SME development, environment, and social) are important to ensure FDI contributes to development
- The upcoming adoption of SDGs warrants a re-look at FDI policy and attraction efforts, to ensure efforts to attract FDI are good for the economy, social equity and environmental sustainability
- In particular, there is a need to review IIAs to enhance their contribution to sustainability (e.g. incorporating OECD guidelines): Investor rights and obligations vs. Country needs and obligations
Your questions please?
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