Outward Foreign Direct Investment (OFDI), home-country measures and sustainable development outcomes in Asia and the Pacific

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9th Meeting of the Asia-Pacific FDI Network, Bangkok, 4 December 2019
Background of study

• Commissioned by ESCAP
• Objective: Support a new research and policy advisory workstream advanced by ESCAP on how home countries can (better) leverage OFDI for sustainable development
• Workstream will be launched in 2020
• This study forms part of the initial work on this subject
• Your feedback will be important for this study and for informing the policy and advisory services and priorities to be developed from this workstream
Growth of OFDI from developing economies in the region
Leading sources of developing country OFDI in the region

<table>
<thead>
<tr>
<th>OFDI stock, 2016-18 average</th>
<th>OFDI stock as a percentage of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rank</strong></td>
<td><strong>Country</strong></td>
</tr>
<tr>
<td>1</td>
<td>China</td>
</tr>
<tr>
<td>2</td>
<td>Singapore</td>
</tr>
<tr>
<td>3</td>
<td>Russian Federation</td>
</tr>
<tr>
<td>4</td>
<td>India</td>
</tr>
<tr>
<td>5</td>
<td>Malaysia</td>
</tr>
<tr>
<td>6</td>
<td>Thailand</td>
</tr>
<tr>
<td>7</td>
<td>Indonesia</td>
</tr>
<tr>
<td>8</td>
<td>Philippines</td>
</tr>
<tr>
<td>9</td>
<td>Turkey</td>
</tr>
<tr>
<td>10</td>
<td>Azerbaijan</td>
</tr>
</tbody>
</table>
Home-economy effects

- Economic benefits
- Development
- Home-country measures

Outward FDI

HOME COUNTRY

Border

HOST COUNTRY

Subsidiary

Mechanisms / Channels
10+1 home-country effects and the Sustainable Development Goals (SDGs)

1. **Financial earnings** (SDG 17.3 mobilize financial resources)
2. **Exports and output** (e.g. SDG 17.11 increase exports)
3. **Domestic investment** (SDG 9.2 promote industrialization)
4. **Know-how, innovation patents** (e.g. SDG 9.B support technology development)
5. **Standards and practices** (SDG 12.6 adopt sustainable practices)
6. **Industrial upgrading** (e.g. 12.A strengthen scientific and technological capacity)
7. **Productivity growth** (e.g. SDG 8.2 higher economic productivity)
8. **Resources capacities** (e.g. SDG 7 access to energy)
9. **Tangible assets** (e.g. SDG 9.5 upgrade technological capabilities)
10. **Employment and wages** (SDG 8.5 full and productive employment)
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**Economic growth** (e.g. SDG 8.1 sustain per capita growth)
Degree of effect dependent on...

- Type of host economy
- Characteristics of investing multinational
- Sector
- Absorptive capacity
- Type and motivation of investment
- Entry mode
- Degree of equity ownership
- Time since investment
- Transmission channels
- Policy context
Home-country measures

- Institutions
- Regulations
- Services
- Financial support
- Fiscal support
- Investment insurance
- Treaties
- Operational support
- Domestic facilitation
## Case studies

<table>
<thead>
<tr>
<th></th>
<th>Thailand</th>
<th>Philippines</th>
<th>Malaysia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objective</strong></td>
<td>Markets, efficiency, strategic assets, resources</td>
<td>Markets, efficiency</td>
<td></td>
</tr>
<tr>
<td><strong>In development plan</strong></td>
<td>National Economic and Social Development Plan (2017-21)</td>
<td></td>
<td>Third Industrial Masterplan IMP3 (2006-20)</td>
</tr>
<tr>
<td><strong>Key institution</strong></td>
<td>BOI and TOI</td>
<td>BOI and FTSC</td>
<td>MATRADE (since 2013)</td>
</tr>
<tr>
<td><strong>Restrictions</strong></td>
<td>None</td>
<td>Restrictions on some SOEs</td>
<td>None</td>
</tr>
<tr>
<td><strong>Services</strong></td>
<td>Information, missions, matchmaking, training etc.</td>
<td>Information, missions, matchmaking</td>
<td>Information, missions, matchmaking, training</td>
</tr>
<tr>
<td><strong>Financial support</strong></td>
<td>From financial institutions</td>
<td>None</td>
<td>Small grants, EXIM bank loans</td>
</tr>
<tr>
<td><strong>Fiscal support</strong></td>
<td></td>
<td>None</td>
<td></td>
</tr>
<tr>
<td><strong>Investment insurance</strong></td>
<td>From EXIM Bank</td>
<td>From financial institutions</td>
<td></td>
</tr>
<tr>
<td><strong>Treaties</strong></td>
<td>OFDI considered</td>
<td>OFDI considered</td>
<td></td>
</tr>
<tr>
<td><strong>Operational support</strong></td>
<td>Diplomacy, listening sessions etc.</td>
<td>Diplomacy etc.</td>
<td></td>
</tr>
</tbody>
</table>
Home-country measures can target by...

- Investment motivation
- Investment strategy
- Entry mode
- Investment destination
- Investment size
- Company size
- Company ownership
- Company nationality
- Business expertise
- Sector
- Investment that would otherwise not occur
- Realization of home-country effects
Menu of options

Home-country effects
- Financial earnings
- Export / output
- Domestic investment
- Know-how
- Improved standards
- Industrial upgrading
- Productivity
- Resources capacities
- Tangible assets
- Employment
- Economic growth

Influencing factors
- Host economy
- Investing MNE
  - Sector
- Absorptive capacity
- Investment motivation
  - Entry mode
- Degree of ownership
- Time since investment
- Transmission channels
  - Policy context
  - [...]

Home-country measures
- Institutions
- Regulations
- Services
  - Financial support
  - Fiscal support
- Investment insurance
  - Treaties
  - Operational support
  - Domestic facilitation
    - [...

Targeting
- Investment motivation
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  - Sector
  - OFDI that would otherwise not occur
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    - [...]
Additional issues to consider

- Economic case
- Empirical evidence
- Development priorities
- Costs and resources
- Negative effects
- Political implications
Next steps

- Finalization of this study
- Additional quantitative work including more countries from Asia and the Pacific region
- Both will be incorporated into the 2020 study that ESCAP will release on this subject
Thank you and questions

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