A note from the Editor

Foreign direct investment (FDI) is one of the most important, and perhaps the most keenly sought, components of globalization. Virtually all countries in the Asian and Pacific region have adopted policy regimes to attract FDI. But, in order to maximize its long-term contribution to development, host country Governments need to go beyond offering a passive open door approach to potential investors to one that seeks simultaneously to enhance the ability of their country to attract and absorb higher value FDI. In this connection, the importance of having good physical infrastructure has been well recognized for some time, as is the need to have effective institutions for oversight and regulatory purposes if the FDI is in services such as banking and insurance. What is insufficiently recognized perhaps is the need to build up adequate human resource skills so that FDI does not remain restricted to traditional low-cost labour activities but graduates to higher skills and higher value added activities. The paper on the changing role of the public sector in FDI posits that building such skills requires strong public sector involvement. In the opening paper the author focuses on the need for an active forward-looking contribution from Governments in the region that stresses the importance of developing human resources in order to enhance the contribution of FDI to growth.

Human resource issues are also discussed in the context of greater subregional cooperation in BIMP-EAGA or the Brunei Darussalam, Indonesia, Malaysia, Philippines East ASEAN Growth Area. The author looks at the different issues involved in greater subregional collaboration in producing new and expensive skills and how best to achieve the needed “critical mass” in this area. And subregional cooperation is examined in the paper on the spillover effects of services and manufacturing in ASEAN. The paper concludes that the relationship between services and manufacturing becomes bi-directional at some point so that countries cannot choose between greater investment in manufacturing and less in services but have to develop both sectors together.

A facet of globalization is the opening up of hitherto closed domestic activities, such as agriculture, to foreign competition. In the paper on Indian agriculture since the beginning of the 1990s reforms the author discusses the impact of the reforms on productivity growth in Indian agriculture. The paper looks at the role of globalization in the process and concludes that at this relatively early stage there is little observable evidence of gains to India’s agricultural performance. Import tariffs have indeed been reduced but domestic support prices for essential foodgrains have gone up, leading to a glut in stocks. However, gains in production efficiency are proving more elusive. Much therefore still remains to be done in the practical arena of incentives between food and other crops if the contribution of globalization to greater efficiency in the critical but traditional activity of agriculture is to be enhanced in the years ahead.

Finally, the paper on the impact of foreign aid on poverty in Papua New Guinea deals with the difficult question of what impact, if any, outside assistance can have on poverty in a country like Papua New Guinea. Growth in Papua New Guinea
has not been pro-poor and has, in fact, been characterized by rising levels of inequality. In the case of Papua New Guinea the author concludes, however, that the donors, at any rate, have been following an approach that reduces poverty and improves human well-being.

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