

Asia-Pacific Foreign Direct Investment Network
for Least Developed and Landlocked Developing Countries
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Handbook on Investment promotion for sustainable development in LLDCs



Why a handbook?

- The world is rapidly changing
 - Tariff barriers significantly lowered
 - Growth in outsourcing (manufacturing, services)
 - Increased competitive pressure
 - Shortening life cycles of products and technology
 - Emerging markets larger share of FDI flows (in and out)
 - Growing presence of SWFs and SOEs in FDI, etc
- Increased focus on Quality vs. Quantity FDI:
 - FDI not a goal in itself: Role of FDI to achieve national development goals / sustainable and inclusive development
- Special focus on challenges facing small, landlocked and resource-rich developing countries.



Why peer-review?

- Handbook should be a living document
- It should reflect and responding to the key challenges currently faced by policy makers and officials
 - To achieve this, we need your views on key issues and challenges, on what works and what doesn't



Desired benefits from FDI

- Job creation
- Revenue (widened tax base, etc)
- Technology transfer
- Knowledge transfer (labour skills, knowledge of markets and process requirements in global supply chains)
- Linkages to domestic suppliers
- Increased exports



Do expected benefits materialize?

- Not always.
- Partly depends on:
 - Sectors attracted
 - Policy
 - Other market specifics



FDI for development

- FDI attraction to **support national development objectives** (job creation, productivity growth, environmental & social goals, etc)
- Creation of lasting and sustainable linkages with domestic economy
- Adherence to commonly accepted standards in terms of environment, labour and human rights
- Transparency in rules and regulations and consistency in their implementation to ensure good governance & attraction of the right kind of FDI
- Fiscal incentives applied with high caution (reduces revenues)
- Avoid “race to the bottom”, including between regions



Special challenges

- Landlocked countries:
 - Transportation costs and times often too high
 - Often struggle to attract FDI other than natural resource seeking (and to some extent domestic market seeking)
- Resource rich countries:
 - Diversifying into other sectors
 - Countering the risk of Dutch disease
- Least developed countries:
 - Small domestic markets
 - Market sophistication
 - Even labour intensive activities require new technologies and upgraded skills



Potential actions

Landlocked countries:

- Deepen regional integration
 - comprehensive regional trade and investment agreements
 - Turning land-locked to land-linked
- Put in place state of the art transportation infrastructure and trade logistics, to minimize handicap
- Focus on special FDI niches that are less sensitive to geographical remoteness, or that can benefit from it
 - e.g. ICT enabled services (call centers, banking, insurance, transport, education); Tourism; production of high value, light weight goods that can be transported by air



Potential actions

Resource rich countries:

– Manage FDI in natural resources:

- FDI in natural resources usually does not require promotion
- Focus on putting in place fair arrangements to share incomes between the investor and the country (taxation, royalties, etc);
- regulating environmental and social impact.
- creating effective linkages between natural resource investments and the domestic economy
- Consider actions to mitigate potential risk of Dutch disease

– Foster FDI in other sectors:

- Develop a promotion strategy for other sectors, incl. tourism
- Reinvest proceeds from natural resources in infrastructure



FDI strategy plan: a possible tool

- Developed in the context of national development strategies
- SWOT analysis
- Target sectors / types of investment, which has potential to bring desired development outcomes
- Strategies for attracting such investments
- Related actions



Motivations of investors

Resource seeking	Market seeking
<ul style="list-style-type: none">- Natural resources (minerals, raw materials, agricultural products)- Low cost or specialized labour	<ul style="list-style-type: none">- Markets previously served by exports- Markets protected by high barriers to import- Aiming to adapt products to local tastes and needs
Efficiency seeking	Strategic asset seeking
<ul style="list-style-type: none">- Rationalized or integrated operations (regionally / globally) leading to cross-border product or process specialization	<ul style="list-style-type: none">- Acquisitions and alliances to promote long-term corporate objectives



Motivations / influencing factors

Firm / Industry specific variables	Host-country factors
<ul style="list-style-type: none"> - Securing market access - Access to suppliers - Following a sourcing strategy - Staying ahead of competition - Lowering production costs - Securing access to raw materials and/or labour - Gaining access to technology and skills - etc. <p><i>Influences the decision on whether to invest abroad or not</i></p>	<ul style="list-style-type: none"> - Political and economic stability - Quality and efficiency of infrastructure and services - Distance to major markets - Skills base, trainable labour - Existing supplier networks - Streamlined procedures, level of red tape / corruption - FDI policies - Local commercial practices - Culture - etc... <p><i>Influences the decision on where to invest</i></p>



For example...

Export oriented (value chain production)	Local market oriented business
<p>Potential key considerations:</p> <ul style="list-style-type: none">- Access to labour (low cost, specialized, or trainable)- Access to neighbouring markets- Access to suppliers- Short transportation times- Competitive transportation costs to major markets- Efficient import and export procedures- Sufficient supply of electricity at competitive cost.- Access to raw materials	<p>Potential key considerations:</p> <ul style="list-style-type: none">- Internal market size- Growth characteristics- Distribution networks- Barriers to import- Barriers to entry- Access to input materials / suppliers



Targeting and attraction strategies

- Investment targeting is resource intensive. Thus, may not be suitable for all.
- Dealing with investors:
 - Understanding investors needs is key
 - Assigning dedicated officer
 - Rapid and clear response times
 - Feedback mechanisms
- Handbook contains detailed info on potential tools and actions to promote and attract FDI.



Questions:

- Which are your most pressing concerns/challenges, and to which degree does the draft handbook address these?
 - What is missing?
 - Are there any parts that should be shortened or left out?
 - Which parts need strengthening?
- What kind of usage do you see for a handbook of this kind in your country?



Thank you!

