FOREIGN DIRECT INVESTMENT

AND DEVELOPMENT:

LAUNCHING A SECOND

GENERATION

OF POLICY RESEARCH

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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 Polices 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

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

Dodd-Frank offers
First Genuine Opportunity
to Level
Anti-Corruption Playing Field
between OECD
and Chinese,
Russian,
Indian investors

From the Resource Curse Correlation of Jeff Sachs and Andrew Warner Through the Extractive Industry Transparency Initiative

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.

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,
Labor Market Flexibility?

World Bank Group

(IFC and MIGA)

are Key Players.

USG Agencies are NOT.

IV.

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?

Is your Company engaged in lobbying
Congress and the Administration
to energize
MCC, OPIC, TDA, US AID
to help build
Industrial Parks and
attract middle-skill FDI
for Manufacturing
and Agricultural Exports
from Africa and Central America?

Is your Company engaged
in lobbying Congress
and the Administration
to direct OPIC
to shift to a
Net-Benefits Test
from a
Not-One-Single-US-Job-Displaced test
in providing
political risk insurance?

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.