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REPORT OF THE EXPERT MEETING ON THE IMPACT OF FDI POLICIES ON INDUSTRIALIZATION, LOCAL ENTREPRENEURSHIP AND THE DEVELOPMENT OF SUPPLY CAPACITY

Held at the Palais des Nations, Geneva
5 to 7 November 2001

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Chapter I

OUTCOME OF THE EXPERT MEETING

1. The Expert Meeting on the Impact of FDI Policies on Industrialization, Local Entrepreneurship and the Development of Supply Capacity examined the policy issues related to: (a) the link between foreign direct investment (FDI) and industrialization, export competitiveness and development of supply capacity; (b) FDI promotion in the context of development strategies; (c) specific instruments and tools for FDI targeting; and (d) the promotion of backward linkages to support local entrepreneurship and development of supply capacity.

2. The experts noted that:

(a) Most Governments acknowledge today that FDI can provide important benefits to host countries. It is clear that, in some countries and under certain circumstances, FDI can help enhance export competitiveness and support industrialization strategies. The extent to which FDI contributes to these goals depends on many factors, including the corporate strategies that drive the FDI, as well as the degree of leverage achieved by policy makers and firms in the host economy from the linkages established. Benefits are not automatic, and countries need to create the appropriate conditions for the realization of the potential benefits.

(b) Increasingly, in a globalizing world, transnational corporations are playing a decisive role in the global distribution of production and trade. In many of the developing countries that have had the greatest increases in their share of world exports of manufactures, attracting the right type of FDI has been central to their success.

(c) The policy issues confronting developing countries that are searching for ways to use FDI as a means of boosting their export competitiveness vary, depending on their level of development, the sectors targeted and the resources available. However, all countries need to define from the outset clear policy objectives and to establish an FDI promotion framework consistent with each country's capacities and opportunities. Policies play an important role not only in attracting the kind of FDI which helps to develop industries that correspond to, and utilize, the dynamic comparative advantage of host countries, but also in spreading the benefits derived from FDI through linkages with domestic enterprises, thereby enhancing their supply capacity and eventually providing them with an opportunity to become global suppliers.

3. On the basis of the exchanges of experience during the Expert Meeting, some elements of best practice in the design of FDI promotion policies and policies to promote backward linkages could be considered.

4. First, there is a need to achieve political stability and a favourable environment for private sector activities, which may involve simply relaxing excessive restrictions, introducing new laws and regulations, or reinterpreting existing ones that can facilitate business.

5. A targeted FDI promotion approach would imply:

(a) A focus on a few competitive sectors and industries;

(b) A matching of countries' advantages with investors' interests;

(c) An effort to create value added and leverage through foreign investment.

6. A targeted approach is an ongoing process and should develop with countries' evolving objectives and advantages.

7. Targeted companies could be those which:

(a) Already have a presence in the host economy;

(b) Are part of the supply chain;

(c) Are users of countries' own resources, including raw materials and human skills;

(d) Are active in strong production sectors with growth opportunities;

(e) Help to establish new core competencies.

8. The tools to target investment have evolved, from cost reduction tools to differentiation and specialization. Government incentives, including tax incentives, can play a role. The tools often found to be effective include:

(a) Clusters;

(b) Public–private partnerships;

(c) Alliances;

(d) Aftercare for existing investors;

(e) Subnational agglomeration.

9. In many countries, clustering has become an important targeting mechanism. It sometimes involves using or establishing research and development facilities, a network of small and medium-sized enterprises (SMEs) and a good public utilities infrastructure.

10. Belonging to a preferential trade area or having access to larger markets can be an advantage in attracting FDI.

11. Consideration could be given to promoting an efficient linkage programme which would take into account the following aspects:

(a) The need for matchmaking to be complemented by measures to upgrade local supply capacity;

(b) The need for supplier development efforts to be selective and target SMEs that show the greatest potential for growth;

(c) Cooperation and coordination among the various government agencies;

(d) Efforts to make SME development tally with FDI policies;

(e) Reliance on the best business service providers, whether public or private;

(f) The need for measures to be context-specific, and appropriate to the circumstances of each country or subnational location.

A. Governments

12. Governments are encouraged to consider cost-efficient ways of promoting FDI policies that are consistent with their country's overall development objectives and industrialization strategies, fully involving the private sector and reconciling foreign investors' motives with the country's priorities. While government leadership in providing a clear vision of a development strategy is the starting point, a public–private sector partnership is both helpful and necessary during the implementation stages.

13. Coordination among government agencies and departments, and a simplified institutional setting consisting of a lead agency for FDI promotion, are also highly recommended.

14. A targeted approach is recommended in designing FDI promotion policies, as it represents the most efficient use of limited resources, offers the best prospects for success, and helps to achieve strategic goals.

15. To increase the beneficial leverage of FDI on the host economy, Governments need to pay special attention to developing local supplier programmes, and to upgrading the technology and capacity of local suppliers.

16. Governments should examine the key elements of a linkage promotion programme, as summarized in the following steps:

(a) Setting the policy objectives, in line with the country's overall development strategy;

(b) Identifying the targets of the programme: selection of industries, foreign affiliates and domestic firms;

(c) Identifying the specific measures to be adopted, in terms of information and matchmaking, technology and technical assistance, training and provision of finance;

(d) Setting up an institutional and administrative framework to implement and monitor the programme.

17. It was suggested by some experts that developing countries should accelerate the privatization of the electricity, water and telecommunications sectors with complete transparency.

18. Home countries should share experiences in targeting and linkage promotion, and assist in this respect.

19. Improved access to developed country markets, especially for products from the least developed countries and low-income countries, can help those countries to attract FDI.

20. Home countries are also encouraged to provide financial assistance to developing countries, particularly those with limited resources, for the establishment of an appropriate framework for FDI promotion and linkage development.

21. Outward FDI agencies in developed countries could serve as vehicles for supporting FDI in developing countries, for example by liaising with investment promotion agencies in those countries and disseminating information.

B. The international community

22. International institutions dealing with FDI should assist developing countries and countries in transition in setting up an appropriate institutional framework for FDI policies and targeting, including the formation of clusters.

23. Cooperation and coordination among United Nations agencies and other relevant institutions on these issues are desirable.

24. The international community should assist the least developed countries in building and improving the infrastructure necessary for attracting FDI.

C. UNCTAD

25. UNCTAD should:

(a) Continue to analyse the international systems of production, by sector and industry, and make this information available to member countries;

(b) Assist developing countries in assessing their existing capabilities in order to help them define policy goals in line with their competitive situation in the international market;

(c) Help developing countries to design, implement and monitor FDI targeting and linkage programmes consistent with their industrialization and development strategies.

Chapter II

CHAIRPERSON'S SUMMARY

A. Industrialization, export competitiveness, development of supply capacity and FDI

26. The main development question for the experts was what types of policies should be considered for implementing an industrialization strategy that was export-oriented and used foreign direct investment (FDI) as a catalyst. Country experiences in this regard varied widely: some economies relied on exports generated by domestically owned industries, while others applied a strategy more reliant on FDI, which serviced assembled or manufactured exports for regional or international markets. A number of countries that had adopted the latter strategy had made remarkable progress in export competitiveness through integration into the international production systems of transnational corporations (TNCs).

27. The economic performance of a number of Asian, Latin American and transition economies suggested that the export- and FDI-oriented development path could indeed be successful, harnessing available technology and moving up the value chain systematically. Various statistical analyses showed the increased export exposure in world markets of a number of developing economies, and also the relevance of FDI as a means of achieving industrial development.

28. Among the examples identified were China and several South-East and East Asian economies, which had shown impressive gains in world market shares during the past 15 years and had changed the structure of their exports from low- to high-tech products on the basis of proactive government policies. Similarly, in Latin America, Mexico had increased the share of its exports in non-resource-based manufacturing and mid- and high-tech products, while Costa Rica had achieved a dramatic increase in non-resource-based manufacturing and started the production and export of high-tech products as a result of a large inward FDI (by Intel). In Central and Eastern Europe also, countries such as Hungary and the Czech Republic had substantially increased their export market shares in the 1990s, and shifted from low- to high-tech exports, largely as a result of proximity to European Union (EU) markets and incoming FDI.

29. The policies and strategies adopted in several of those countries were examined in detail. China, for example, had recently begun emphasizing higher-value-added FDI. During preceding phases of the country's FDI policies (1979–1991), the focus had been on attracting labour-intensive FDI into the then newly created Special Economic Zones. In the first phase, from 1979 to 1983, China started liberalizing FDI and created the Special Economic Zones. TNCs were attracted both by the country's relatively low-cost labour and by the comprehensive set of special incentives offered by the Zones. In the second phase, from 1984 to 1991, FDI slowed down somewhat and new measures were introduced to encourage inward FDI, with reliance mostly on tax incentives. In the third phase (from 1992 onwards),

China's FDI policy underwent substantial strategic changes. These included in particular a gradual shift towards stimulating FDI not merely in the Special Economic Zones, but also in other regions. Since the year 2000, investment promotion in China had been especially focused on attracting higher-value-added and more technology-intensive FDI, while at the same time encouraging outward FDI by Chinese firms to further foster their competitiveness. As a result of these FDI policies, China had experienced impressive increases in exports, which had shifted in recent years from labour-intensive to more technology- and capital-intensive activities. This shift was also explained, in part, by the increasing share of FDI that was oriented towards producing for the domestic market as opposed to purely export-oriented FDI. Another result of the process was that the industrial structure of the Chinese economy had changed with regard to ownership. The importance of State-owned enterprises in domestic industrial production had decreased in favour of joint ventures with foreign participation. In the context of China's accession to the World Trade Organization, a fourth phase of FDI policies was emerging that would further accentuate the trend towards more technology- and capital-intensive forms of FDI.

30. In the industrialization process in Malaysia, the Government's FDI policies were consistently based on a development strategy vision. The focus of those policies evolved from the attraction of labour-intensive and export-oriented FDI in the early 1970s to the technological upgrading of manufacturing facilities, moving into higher-value-added and higher-wage activities such as product development and distribution. A similar sequence was initiated in Costa Rica, which had rapidly moved into such areas as product and software design and new technologies in general.

31. In the case of Mexico, the growth in exports (and imports) throughout the 1990s was clearly led by non-oil export activities, particularly exports of manufacturing goods, most of which were produced by affiliates of TNCs. This growth had contributed to the growth of the country's gross domestic product and to job creation. The FDI inflows were largely due to the North American Free Trade Agreement, but the country's success was not solely because of its geographical proximity to the North American markets, but also a result of its efforts to diversify trading partners from different regions (e.g. Central and South America, and Asia) through numerous bilateral free-trade and investment agreements. With the change in 1993 to a liberalized FDI policy, FDI inflows into the country – mostly FDI from the United States in the manufacturing sector – had increased threefold (from 1994 to 2000). In this connection, the Meeting noted the changing objectives of efficiency-seeking foreign investors (i.e. from a focus on low labour costs to attention to more highly skilled labour), the extension of international production systems and the intense competition from Asian economies, competing for FDI flows and to export to the United States market.

32. Mexico would continue to concentrate on export promotion and negotiation of international trade agreements as its main industrial development policies, while improving the country's comparative advantages – its young population, privileged geographical location and a worldwide network of trade agreements – to reap the benefits of free trade and investment. It would also increase the number of sectors, regions and enterprises participating in export activities and would develop local supplier programmes to increase the local

content in exports. Special attention would be devoted to developing and upgrading small and medium-sized enterprises (SMEs) in the southern provinces and to strengthening ties to other Central American countries.

33. In the Russian Federation, the transition process was still under way, and the Government was focusing attention on establishing trust among potential investors – domestic and foreign – and on overcoming macroeconomic imbalances. A Consultative Board on FDI was created in 1995; it was chaired by the President and comprised representatives of the Ministry of Finance, the Central Bank, the Ministry of State Monopolies and other national and regional government bodies, three dozen large TNCs and the Russian Chamber of Industry. A new law on FDI was adopted in 1999. Inflows were generally market-seeking – as opposed to export-oriented – and directed to heavy industry and the food industry, but also increasingly to high-technology industries (e.g. Intel) and to trade.

34. A current preoccupation of policy makers in developing and transition economies was the effect of the recent cyclical slowdown in the world economy, coupled with the effects of the restructuring of global industries such as electronics and information technology on future FDI flows. Some TNCs were reportedly putting new investment projects on hold, while others such as Intel and Cisco were turning increasingly to cost-saving measures such as outsourcing or relocation to alternative, low-cost investment sites. In general, TNCs – like all investors – were more easily attracted to dynamic markets with strong growth.

35. The Meeting noted that the experiences of those economies that had utilized FDI efficiently needed to be studied carefully. Latecomers to industrialization could not simply replicate such outward-oriented growth experiences: they needed to build specific competitive advantages and to adopt those policies and strategies that suited their resource and skill endowments. For example, less developed countries and least developed countries might follow strategies built on resource-based as opposed to technology-based exports. They might aim at increasing the degree of processing and the knowledge content of exports. Chile and Benin at different stages of production were mentioned as examples of countries which specialized in less dynamic commodity sectors but which, by developing higher-value-added activities through industrial policy measures, were entering processed product markets. The need for proactive government policies towards foreign investors was clear, since these could facilitate the upgrading of industries to higher-value-added production.

36. Common elements in cases of internationally competitive industrialization appeared to include:

(a) Active government policies, including a clear vision and strategy regarding the industrialization process, and ensuing action;

(b) Development of export markets, ideally through preferential market access for developing countries but also through active negotiation of trade agreements (the role of the American Growth and Opportunity Act for African developing countries was cited as an example in this connection);

(c) Integration into the international production systems through inward FDI and, where possible, outward FDI.

B. The role of corporate strategies and other considerations of foreign investors

37. A thorough understanding of international production systems and TNC strategies was acknowledged as essential for successful implementation of industrialization and export policies using FDI as a catalyst. It was noted that TNCs operating in dynamic markets, characterized by short product life cycles, were primarily concerned with a rapid start-up (i.e. becoming operational in a new location within three months), the speed of innovation, and the speedy production and distribution of the final product with minimal inventories. In fact, in such industries, speed was reportedly more important than the size of a firm, and the key to success could be described as being fast and flexible in adapting to changing markets and changing customer requirements. This might well be compatible with an absence of a specific product- or market-oriented corporate strategy. In the long term, as regards typical contractual manufactures, the trend towards outsourcing might prevail. As far as smaller TNCs were concerned, their success was driven substantially by their ability to take advantage of the World Wide Web or inter-firm linkages.

38. In addition to political stability and the absence of corruption, foreign investors carefully gauged the following factors when selecting an investment location:

(a) Availability of public utilities infrastructure (water, sewage, electricity);

(b) A one-stop window for foreign investors;

(c) Presence of SMEs as potential suppliers (local/foreign) and notably suppliers with certified quality and performance standards;

(d) Ease of access to and low cost of land, and simple and timely construction approvals;

(e) Availability of skilled human resources and access to accumulated know-how;

(f) Flexibility of labour markets (adaptability to shifts in production and seasonal production);

(g) Consistent trade policies and legislation, notably on export processing zones (EPZs), and efficient customs clearance procedures;

(h) Assured access to the main destination markets;

(i) A stable and predictable tax environment, including reliable/stable incentives, if any (tax holidays being of secondary importance);

(j) Capital and profit repatriation, and stable exchange rates;

(k) Quick and simple expatriate regulations, and appropriate housing etc.

39. In Costa Rica, for example, foreign investors such as Intel had based their investment decision on the existence of a skilled labour force and the availability of research facilities. In the case of Hungary, where Flextronics had made its largest investment (measured against the size of the country), the investment had been triggered by the country's proximity to Western European markets (mainly EU markets), a low-wage but highly skilled labour force, confidence in government and society, and the ease of doing business and securing government support. Measures provided by the Government included industrial parks, duty-free zones and tax holidays. To some extent, similar considerations swayed investors in Mexico.

C. Targeting FDI in the context of development strategies

40. The Meeting noted that, in the context of their industrialization strategies, many Governments used investor-targeting approaches, although they were not always necessarily identified as such. Successful targeting strategies required clarity concerning:

(a) Dissemination of information about the opportunities offered by the host country, i.e. successful country-image building;

(b) The industries, sectors and companies to be targeted and how to approach them;

(c) The compatibility of investors' needs with what a country had to offer.

41. Regarding the first point, data from investor countries such as Japan and the United States suggested that investment in Africa could be more profitable than in other regions. More could be done, therefore, to communicate such information more broadly to potential investors.

42. It was pointed out that investment decisions were ultimately taken not by companies but by individuals, and that it was they who ought to be targeted. Investor targeting required considerable persistence on the part of the investment promotion agency (IPA), namely contacting the same firm repeatedly before a decision on an investment project might be triggered. It was also observed that targeting had to be understood as an ongoing process, spanning the entire period from the first contact to the actual establishment of the firm and reaching into aftercare for existing investors. This had become a difficult exercise owing to the large number of IPAs and the competition among them, as well as to the greatly increased pool of TNCs from among which an IPA had to identify a subset of companies upon which to focus, as witnessed by the increasing number of small TNCs from many developing and transition countries. Last but not least, the demands of TNCs had become ever more sophisticated and difficult to comply with.

43. Since investor targeting constituted policy at the micro level, it was of paramount importance for an IPA to attend to details and to consult and involve various actors such as the pertinent government agencies, representatives of local service providers, consulting firms, and TNCs already operating in the host country, as well as experts in the firm(s)

targeted. It was equally important to convince stakeholders in the host economy, such as local manufacturers, that the inward FDI project would provide concrete benefits for them too. There was a case for being "aggressive and creative". The former required the involvement of senior political levels, perfect organization and strict confidentiality during negotiations, while "creativity" referred to using all conceivable vehicles of communication.

44. It was also noted that subnational and local offices within a country played a crucial role in targeting. They were the best and most accessible sources of information regarding emerging investment opportunities throughout the country. A coordinated approach by the promotion agencies at different levels was therefore highly advisable. Some experts emphasized the importance of analysing emerging world market opportunities as a precondition for efficient investor targeting. The case of Malaysia was cited: this country had seized the opportunity to develop a natural-rubber-based industry when the AIDS pandemic suddenly boosted world demand for latex products.

45. More broadly, the Meeting was briefed on the trade-data-based targeting tools developed by the International Trade Centre. The software facilitated a classification of export products, reflecting whether a country had won or lost market shares worldwide and the development of import demand for a particular good. Such classification could in turn serve to identify targetable product groups and industries and sectors. It addressed the first step in the two-step process for assessing countries' export competitiveness, namely an informed analysis of their export opportunities. A sound assessment of countries' capabilities constituted the second step.

46. Targeting typically consisted in attracting FDI into particular industries. For example, Malaysia was increasingly targeting specific high-skill services such as software development, education, medical services, and information technology and multimedia services, while Panama was targeting FDI into industries such as agro-processing and mining, as well as into services (e.g. packaging, education, health, information and communication technology services, tourism, financial services, telecommunications and logistics). Similarly, Ethiopia had, in cooperation with the United Nations Industrial Development Organization, launched a project to attract FDI into natural-resource-based manufacturing, such as textile, leather and footwear manufacturing, in partnerships with local companies.

47. In general, targeting by industry should focus on TNCs that:

(a) Were already established in the country, as they were easily approachable, and their reinvestments often accounted for a major share of FDI inflows;

(b) Were already part of a supply chain to which the country was linked;

(c) Were searching for countries' raw materials or for talents based in the host country; some countries were, for example, inviting highly qualified and talented people to take up residence as they might in turn attract FDI, or encouraging export- and FDI-oriented services such as software development, market research and call centres;

(d) Were operating in sectors where the country was competitive and had dynamic comparative advantages; and/or

(e) Could help to establish and develop new core competencies.

48. In addition to targeting by industry, some countries undertook geographical targeting by addressing specific investor home countries. The Uganda Investment Authority, for example, focused investment promotion activities on a number of regional countries (South Africa, Mauritius, Egypt and Kenya), countries with which Uganda shared particular interests (Netherlands, United Kingdom and United States) and, building on ethnic ties, other developing countries (India, China and Malaysia).

49. Targeting could also take the form of attracting investment to meet identified objectives, such as employment generation, domestic market development, generation of exports or upgrading of domestic industries. African countries, for example, noted that resource-seeking FDI might be used to begin processing of natural-resource-based products. This would require long-term policies initially aimed at enhancing their capabilities, notably the organization of commodity markets and the skills of the labour force.

50. The Meeting also considered targeting tools. Incentives, of whatever type, were seldom decisive factors in attracting FDI; rather, they would make a difference only where rival locations would provide a more or less identical offer. In all other cases, there was a risk that they would merely subsidize investment activities which companies would have undertaken in any event. On the other hand, it was noted that the use of incentives by developing countries was legitimate and appeared necessary for as long as developed countries continued to make ample use of them to attract FDI.

51. Financial support to potential investors, or conducting feasibility studies on their behalf, could be beneficial. Developing country IPAs could also utilize initiatives of investor home countries, such as outward investment promotion, as a vehicle for disseminating information about investment opportunities in their country.

52. Finally, it was important for IPAs to develop objective success and evaluation criteria and standards. A number of success indicators were mentioned, such as value-added created, the number or value of newly established projects, and employment criteria such as the number of jobs created directly, safeguarded, or created through multiplier effects.

53. In sum, although targeting was important since it could contribute to a focused and efficient use of an IPA’s or a Government’s limited resources, experts warned that there was no “one-size-fits-all” formula for investor targeting; instead, the approach depended *inter alia* on the country’s stage of development, the specific overall priorities and the resources available. The need, therefore, to identify viable “niches” was emphasized.

D. Local entrepreneurship and development of supply capacity: Promoting backward linkages

54. The degree to which export-oriented industries and foreign-invested firms were embedded in the local economy is crucial with regard to enhancing the contribution of FDI to the industrialization of host countries. The Meeting therefore discussed various examples of policies on the development of local entrepreneurship and supply capacity, backward linkages and the clustering of firms.

55. As described in the *World Investment Report 2001*, backward linkages between foreign affiliates and local firms could benefit not only TNCs, but also host economies and local firms. Findings in that report illustrated the importance of linkage promotion, taking account of factors specific to industries, TNCs and host economies. Linkage promotion policies needed to be consistent with and embedded in a broad range of policies that facilitated enterprise development based on a clear vision of development strategy. Linkage promotion strategies were at the intersection of FDI promotion and SME development, serving the interests of both foreign investors and local SMEs.

56. Reviews of existing linkage programmes in medium- and high-income countries demonstrated the importance of Governments' efforts in the area of SME development. In several countries and subregions, they had provided assistance in the provision of information, matchmaking, technology upgrading, training and finance. Key steps towards an effective linkage promotion programme were set out in the *World Investment Report 2001*.

57. Low-income countries where financial resources were scarce (e.g. South Africa) could explore possibilities for the active involvement of the private sector to reduce the costs of establishing linkage programmes, and various forms of public–private partnerships. Most programmes reviewed in the *World Investment Report 2001* had been started on the initiative of the country's IPAs, relying on combined support from the public and private sectors. Indeed, IPAs could be a catalyst for linkage formation, provided that they had the necessary capacity and received assistance from all parties concerned.

58. With regard to supplier development, and with a view to maximizing the welfare derived from attracting export-oriented FDI, countries were well advised to develop domestic SMEs and/or to attract suitable foreign SMEs as potential suppliers. In respect of domestic SMEs, the recently launched PROVEE project in Costa Rica was of some significance, as it aimed at developing world-class local suppliers. One of the goals of supplier development was to enable efficient local firms to reach international standards and become exporters and outward investors in their own right, as illustrated by the case of a Costa Rican packaging manufacturer that had established subsidiaries in Mexico and the United States.

59. There was also a case for attracting foreign suppliers, and notably small or newly emerging TNCs, which unlike large TNCs often did not have the resources or capacities to study investment opportunities. Governments or IPAs could implement measures designed

specifically to attract and support such firms, which were often especially well suited to developing-country environments.

60. There were various examples of countries where a linkages development programme had made a difference. Malaysia, for example, had adopted a multiple approach, which included the setting up of trust funds to invest in SMEs, the attracting of foreign banks and insurance companies, the setting up of government-owned development banks and "moral pressure" by the Central Bank to convince commercial banks to include local SMEs in their lending portfolio. In Costa Rica, linkages creation was directed to activities such as training and certification for potential suppliers. In Uganda, the Uganda Investment Authority had a continuous private–public sector dialogue, and its staff had private-sector experience. With a view to developing subnational clusters to promote linkages, a cooperation project with the United States Agency for International Development (USAID) had been established to facilitate clustering.

61. A puzzling case was that of EPZs, which had generally been created expressly to attract FDI in export-oriented industries. They had often proved to be a constraint on the development of linkages. For example, in Malaysia, EPZ-specific incentives had restricted interaction between companies in the EPZ and the rest of the economy, with the result that it was decided to abolish the EPZ modality so as to better benefit from multiplier effects related to FDI. In China, the Special Economic Zones had successfully created a host of linkages with local firms, but the Government was now reconsidering the efficiency of local suppliers.

62. Certain industries such as electronics might not, a priori, lend themselves easily to the establishment of linkages. In such cases in particular, proactive government measures could facilitate their establishment, for example provision of information on existing suppliers and their capabilities or vendor development programmes; in addition, the Government could help upgrade industries. Furthermore, facilitating research and development centres, providing technical training material or influencing the prevailing mindset could have a favourable impact on linkages. In Malaysia, Intel had reportedly encouraged senior technical staff to set up their own enterprises and become suppliers. Although TNCs could contribute to supplier development, it was important that the Government play a proactive role, especially as regards the sharing of information about future demand.

63. Clusters of SMEs, often supported by public institutions, and of large domestic firms were another relevant modality which could empower developing countries to benefit from FDI and link it into the local economies. Moreover, clusters could be especially efficient in leveraging access to technology and to international markets. Government measures to facilitate the development of clusters of enterprises could therefore enhance the contribution of dynamic export-oriented FDI to the local economy. They called for a policy and strategy developed at the subnational level, where knowledge regarding local capacity and capability – "local platforms and local delivery" – was the most accurate and up to date.

64. Accordingly, an integrated approach to attract FDI in the targeted industries and to enhance the development of suppliers and linkages might well encompass cluster building. In

the case of the IPA for Wales, the Welsh Development Agency, this approach was adopted notably in order to attract and retain large investors such as Toyota, and the Agency was instrumental in setting up a Supplier Association comprising the TNC and local and foreign suppliers in the cluster.

65. Sweden and its “SOCware” programme, designed to build a cluster in the area of “Systems-on-Chips”, provided another interesting example. The Swedish IPA had succeeded in attracting FDI into this sector by consulting all relevant players – companies, research institutes, and national as well as regional agencies. The consultation process, combined with feasibility studies, had served to identify potential shortcomings and pitfalls – in this case, a dearth of appropriately trained software engineers. In response, the Government, in coordination with other actors, had adopted specific policy measures for skills development.

66. Another example of a predominant role played by clusters of SMEs was in Italy. A significant portion of exports was generated by a group of numerous (non-diversified) SMEs which each served one or two foreign markets. These clusters had well-established linkages with each other and accounted for large shares of the country’s exports, and they were high performers in the world market for a range of non-dynamic export goods (e.g. leather, tiles, jewellery, textiles and furniture). This suggested that export growth in the high-technology manufacturing sector was not necessarily the only indicator of a country’s export competitiveness. Moreover, FDI inflows into Italy were relatively low, but were emerging in the non-dynamic export-oriented clusters.

67. In sum, the Meeting noted that clusters, drawing together local as well as foreign firms, were feasible and desirable as a means of promoting backward linkages. However, not all clusters would automatically be attractive to FDI and ensure that they were embedded in the local economy. The challenge was to build and mobilize local capacity corresponding to the needs of targeted foreign investors. In this respect, policies continued to play a crucial role in ensuring that the right conditions prevailed for attracting and benefiting from FDI in a manner that promoted growth and development.

Chapter III

ORGANIZATIONAL MATTERS

A. Convening of the Expert Meeting

68. The Expert Meeting on the Impact of FDI Policies on Industrialization, Local Entrepreneurship and the Development of Supply Capacity was held at the Palais des Nations, Geneva, from 5 to 7 November 2001.

B. Election of officers

(Agenda item 1)

69. At its opening meeting, the Expert Meeting elected the following officers to serve on its bureau:

Chairperson:	Ms. Maggie Kigosi (Uganda)
Vice-Chairperson-cum-Rapporteur:	Mr. Lelio Iapadre (Italy)

C. Adoption of the agenda and organization of work

(Agenda item 2)

70. At the same meeting, the Expert Meeting adopted the provisional agenda circulated in document TD/B/COM.2/EM.10/1. The agenda for the Meeting was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. The impact of FDI policies on industrialization, local entrepreneurship and the development of supply capacity of developing countries, in particular the least developed countries
4. Adoption of the outcome of the Meeting

D. Documentation

71. For its consideration of the substantive agenda item, the Expert Meeting had before it a note by the UNCTAD secretariat entitled “The impact of FDI policies on industrialization, local entrepreneurship and the development of supply capacity: Policy issues to consider” (TD/B/COM.2/EM.10/2).

E. Adoption of the outcome of the Meeting

(Agenda item 4)

72. At its closing meeting, the Expert Meeting authorized the Rapporteur to prepare the final report of the Meeting under the authority of the Chairperson.

Annex

ATTENDANCE [*]

1. Experts from the following States members of UNCTAD attended the Meeting:

Angola
Bangladesh
Belarus
Belgium
Benin
Burkina Faso
Burundi
Cambodia
Cameroon
China
Colombia
Congo
Costa Rica
Côte d'Ivoire
Czech Republic
Democratic People's Republic of Korea
Democratic Republic of the Congo
Dominican Republic
Ecuador
Egypt
Ethiopia
Finland
France
Guinea-Bissau
Honduras
Indonesia
Italy
Japan
Kenya
Lebanon
Madagascar
Mexico
Morocco
Nepal
Niger
Nigeria
Pakistan
Panama
Peru
Philippines
Russian Federation
Rwanda
Saint Kitts and Nevis
Saudi Arabia
Swaziland
Sweden
Syrian Arab Republic
Thailand
Togo
Tunisia
Uganda
United Republic of Tanzania
United States of America
Venezuela
Viet Nam
Yemen
Zambia

[*] For the list of participants, see TD/B/COM.2/EM.10/INF.1.

2. The following intergovernmental organizations were represented at the Meeting:

Arab Labour Organization
Organisation for Economic Co-operation and Development
Organization of the Islamic Conference

3. The following specialized agencies and related organization were represented at the Meeting:

International Labour Organization
International Monetary Fund
International Telecommunication Union
United Nations Industrial Development Organization
World Trade Organization

4. The United Nations Development Programme was represented at the Meeting.

5. The following non-governmental organizations were represented at the Meeting:

General Category

Exchange and Cooperation Centre for Latin America
International Federation of Business and Professional Women
Organization of African Trade Union Unity

6. The following panellists attended the Meeting:

Mr. Enrique J. Egloff, President, Cradvisory.com, Costa Rica
Mr. Carlos Garcia Fernandez, Director-General, Foreign Investment, Ministry for the Economy, Mexico
Mr. J. Jegathesan, Former Deputy Director, MIDA, Malaysia
Mr. John A. Mathews, Professor, Macquarie Graduate School of Management, Macquarie University, Australia
Ms. Olga Memedovic, Industrial Policies and Research Branch, UNIDO
Mr. Jean-Michel Pasteels, Market Analyst, International Trade Centre, Geneva
Mr. Richard Pfaffstaller, Vice President, Strategic Infrastructure Development, Flextronics Central Europe, Austria
Mr. Clive Vokes, Clive Vokes Associates, United Kingdom