SG's Ad Hoc Expert Group Meeting

UNLDC IV: Key Development Challenges facing the LDCs

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INVESTMENT PROMOTION

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The view expressed are those of the author and do not necessarily reflect the views of UNCTAD
Investment Promotion

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Investment Promotion: Importance

- LDCs – objective is to achieve high rates of economic growth and poverty reduction
- Investment is the key
  - 7-8% growth would require investment of around 30-35% of GDP
  - Given LDCs’ low domestic saving, they have to rely on ODA, grants and FDI
- FDI has certain important features – brings technology, opens up export possibilities and generates +ve externalities.
- But other types of investment are also imp
**Investment promotion for structural transformation**

- This perspective is important both for retrospective assessment and future implications.

- Looking backward, some LDCs have shown some progress in diversifying their exports.

- But still, fuels and minerals’ share in total LDC exports has increased from 43% in 2000 to 67% in 2009.

- During 2000-08 f+m exports from LDCs grew on average 27% per annum against of 14% of commercial services exports and 20% of total goods exports.

- This type of export concentration may have important growth and development implications.
What countries export matter for growth

- Relatively recent research (by Hausman, Rodrik, Klinger, etc) – export specialisation matters

- Consider product space which is highly heterogenous
  
  - Initial location in this product space affects opportunities for structural transformation
  
  - Structural transformation favours what is nearby in the product space
  
  - Some products are well connected but not all
  
  - Overall connectedness of the export basket determines the speed of export upgrading
Export specialisation and implications

- A country’s location in the product space and its pattern of product specialisation matter for its likelihood of experiencing growth acceleration.

- This has serious implications for trade and investment promotion policies.

- Unfortunately, mineral and natural resource based products are shown to have low interconnectedness with dynamic products.

- Therefore, looking backward, would 2001-2010 be considered as a missed opportunity?
Static versus dynamic comparative advantage

- Moving from natural resource based export items to other categories
  - Investment into the sectors with dynamic comparative advantage
  - However, the recent trends in commodity prices reinforces export concentration and the focus on static comparative advantage

- Therefore, if objective is to achieve structural transformation, promoting investment into the right sectors is crucial.
**Investment and structural transformation**

- UNCTAD evidence on neutral effect of FDI in Africa is consistent with the above
- FDI is important but domestic investment and ODA can also play important role in structural transformation
- Transformation is important for enhancing supply-side capacity
  - LDCs cannot enjoy duty-free access to an overwhelming proportion of product lines
Transformation of the global economy

- However, the rise of China, India, Brazil, Russia and others may have different implications for commodity exporters.
- With the rise of these large economies, will the commodity price boom be sustained?
- If yes, then some LDCs can manage to grow without structural transformation.
- But there are other net-food (commodity) importing countries.
IIAs and Investment promotion

- Significant efforts by developing countries to encourage FDI inflows through IIAs
- However, the importance of IIAs is not very clear (UNCTAD has done a recent assessment)
- One key finding is IIAs alone can never be sufficient to attract FDI (they do not contain commitment of capital exporting)
- ComSec has also done some work in developing a template for IIAs for promoting developing country objectives
Concluding points

- Investment promotion is very important for LDCs, but its role in achieving structural transformation needs to be appreciated. It has important policy implications.
- Along with FDI, other components such as ODA (and good quality) and domestic investment are also important.
- The role of IIAs and RTAs in promoting investment needs to be understood clearly.
Thank you